Austria ... Sch 22	Indonesia ... Rp 3100	Philippines ... Peso 20
Bahrain ... Din 0.650	Israel ... IS 3.50	Portugal ... Esc 100
Belgium ... BFr 48	Italy ... L 1600	S. Arabia ... Rls 6.00
Canada ... C$1.00	Japan ... Y600	Singapore ... S$ 4.10
Cyprus ... C£0.75	Jordan ... Fils 500	Spain ... Pta 125
Denmark ... DKr 8.00	Kuwait ... Fils 500	Sri Lanka ... Rup 30
Egypt ... E£2.25	Lebanon ... [illegible]	Sweden ... SKr 8.00
Finland ... Fmk 7.00	Luxembourg ... LFr 48	Switzerland ... SFr 2.20
France ... Fr. 6.50	Malaysia ... Rin 4.25	Taiwan ... NT $65
Germany ... DM 2.20	Mexico ... Pes. 300	Tunisia ... Din 0.800
Greece ... Dr 100	Morocco ... Dh 6.00	Turkey ... L 500
Hong Kong ... HK$ 12	Netherlands ... Fl 3.00	U.A.E. ... Dh 6.50
India ... Rup. 15	Norway ... Nkr. 7.00	U.S.A. ... $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,242 — Tuesday May 26 1987 — D 8523 A

Mitterrand's historic visit, Page 3

World news

S. African prisoners on hunger strike

More than 100 detainees held under South Africa's state of emergency have gone on a hunger strike, saying the government planned to brainwash them in 're-education' camps.

The prisoners demanded that the prison authorities stopped chaining them or using leg irons when taking them to hospitals. Page 3

Reporters expelled

Six Western journalists were expelled from Romania before the start of Soviet leader Mikhail Gorbachev's three-day visit to the country.

Fanfani trip

Italian caretaker Prime Minister, Amintore Fanfani, left for Ottawa and Washington in a series of visits to prepare for next month's economic summit to be held in Venice.

Afghan pardon

Afghanistan's Soviet-backed Government announced a limited amnesty for prisoners to mark an Islamic Festival. All prisoners with one year or less of their prison terms left to serve will be pardoned and freed.

Irish vote

The Irish Republic votes today in a referendum that will decide the country's future status in the European Community. Page 6; Feature Page 23

EC Decision

European Community foreign ministers agreed there was no scope for any new Middle East peace initiatives as a result of an impasse in Israel over the issue of an international peace conference.

Fiji amnesty

Fiji's Governor-General granted an amnesty to the army leader and troops who staged the military coup earlier this month. Meanwhile, supporters of the ousted government prepared for a protest strike. Page 5

Barbie hearing

Klaus Barbie, the former Gestapo leader, may be brought back before the French court today where he is standing trial for crimes against humanity. He has boycotted proceedings for the past two weeks.

Moscow jamming

The US embassy in Moscow said the Soviet Union had stopped jamming Voice of America radio broadcasts into the country.

UK election

Britain's Conservative Party leader, Mrs Thatcher, rejected suggestions that the Tories had lost the initiative in the general election campaign. Page 12; Campaign reports, Pages 10 and 11

Prisoner elected

A black anti-apartheid activist, in jail awaiting trial on charges of treason, has been elected general secretary of South Africa's second largest trade union.

Mitterrand's quest

French President François Mitterrand arrived in Canada on a five day visit seen as an attempt to open a new chapter in relations between the two countries. It is the first visit by a French president since 1967. Page 3

Spy suspects

Two men suspected of spying for the Soviet Union and East Germany were being questioned by West German authorities.

Iceberg on tour

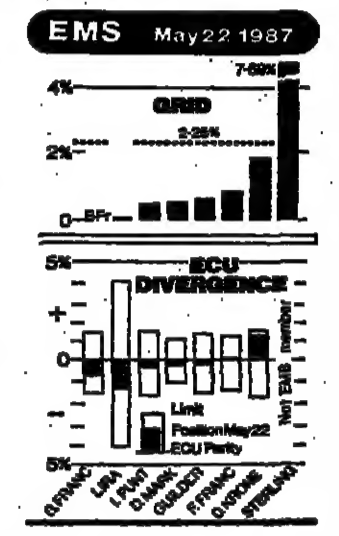
Greenland has shipped a giant iceberg to Japan where it will be used in a display about the country. Already New York bars have asked about the possibility of importing the pollution-free ice to serve in cocktails. Page 5

Business summary

Noranda to float 15% of subsidiary

NORANDA, Canadian resources group, is planning to go ahead with the flotation next month of its forest products subsidiary. It will be the largest company ever floated in Canada, with a likely market value of more than C$2bn ($1.48bn). Page 24

EUROPEAN Monetary System: The Belgian franc was slightly firmer overall, despite a cut in discount rate to 7¾ per cent from 8 per cent. It remained one of the weaker members but was well inside its divergence limit. The Italian lira showed little overall change although it was still trading at a record low against the D-Mark. Trading was a little subdued ahead of the long weekend in the UK and US and dealers were watching the dollar's performance against the D-Mark before trying to establish any trend.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

WALL STREET and London markets were closed for holidays, which put a dampener on trading in many European bourses. But Paris, Madrid and Stockholm managed gains. World stock markets, Page 38

TOKYO: Strong morning gains ran into light selling, but the Nikkei average still finished 50.05 higher at 24,582.77, Page 38

AEROSPATIALE, French state-owned aircraft and missile manufacturer, saw its profits drop sharply last year under the pressure of stagnant sales and a declining dollar. Page 28

ASEA, Swedish electrical engineering group, reported a 29 per cent drop in profits (after financial items) to SKr 557m($88.4m) for the first quarter, but said full-year earnings after financial items were expected to reach about the same level as 1986's SKr 2.53bn. Page 28

GENERAL MOTORS, world's largest industrial company, has appointed a new president in a major reshuffling of management designed to provide continuity in the company's affairs well into the 1990s. Page 28

LATINA, Italian insurance group controlled by Carlo de Benedetti's Cofide holding company, is poised to acquire effective control of Norditalia, another Italian insurer which last year had about L200bn ($155m) of premium income. Page 28

NIPPON TELEGRAPH and Telephone Corp (NTT) scored a 13.2 per cent gain in pre-tax profits to Y357.96bn ($2.5bn) in fiscal 1986 to last March. Page 28

JOHN LEWIS Partnership, UK department store and supermarket group, raised annual pre-tax profits 28 per cent to £105.5m ($177.2m). Page 15

EGYPT reached agreement with its creditors on a plan to reschedule its debt repayments.

EC plans fresh action on tariffs against Japan

BY QUENTIN PEEL IN BRUSSELS

SENIOR EUROPEAN Community trade officials yesterday agreed on new measures to hold down the soaring EC trade deficit with Japan – running at an annual $21bn – opening the way for substantial tariff increases on a range of popular electronic equipment.

The officials approved a plan to refuse to "rebind" the existing tariffs on six key products – compact disc players, amplifiers, electronic organs, video recorder components, digital audio tape (Dat) recorders and microwave ovens – within the General Agreement on Tariffs and Trade (Gatt), unless Japan offers alternative measures to open up its own market.

At the same time they agreed on emergency action to impose punitive tariffs on three other products – colour televisions, desk-top computers, and power tools – if there is any evidence of a diversion of trade from the US, where they are now subject to 100 per cent duty increases.

Both measures were last night set for formal approval by the 12 EC foreign ministers, as part of their wider campaign to redress the imbalance in EC-Japan trade.

The most important move is the refusal to rebind the Gatt tariffs on a range of products in order to pressure Japan into offering trade "compensation" for the benefits it has gained from the entry of Spain and Portugal to the Community.

Both those countries have begun to dismantle their industrial tariffs as part of the EC membership process, resulting, according to European Commission officials, in a trade gain of some $1.2bn for Japan. Japanese exports to Spain and Portugal rose by 30 per cent in 1986, they say.

The Community is conducting negotiations with Japan, as it has already done with the US and other major trading partners, on the balance of advantages from Spanish and Portuguese membership.

The front line EC demand is for Japanese tariff concessions for Spanish and Portuguese exports, like tomato paste, sherry, port and leather products. The threat of an increase in tariffs at the Community end is intended to reinforce that demand, which so far Tokyo has apparently rejected.

The other measure is to ensure that there is no diversion of Japanese exports from the US as a result of their current trade row over semi-conductors. The Community will now impose prohibitive tariffs on the products involved in that dispute, within two weeks of the European Commission producing evidence of trade diversion, the EC ambassadors agreed.

Once Gatt tariffs are bound they can be altered only by negotiation between trading partners. However, the EC tariffs have been unbound because of the accession of the two new member states last year – and the threat is not to rebind them unless alternative compensation is paid, and eventually to increase them if it is not.

It would be the first time that Article 24 (6) of the Gatt was used to compensate the customs union, rather than third country partners, for a change in the balance of trade.

Bundesbank warns on money supply growth

BY ANDREW FISHER IN FRANKFURT

WEST GERMANY's money supply should not be allowed to go expanding beyond its target range for too long, if the dangers of renewed inflation are to be avoided, Mr Helmut Schlesinger, vice president of the Bundesbank, has warned.

Speaking as signs of weakening German growth have been increasing, he also sought in a weekend speech to play down the actual impact of monetary policy on stimulating the economy, as well as the scope for further interest rate cuts.

With exports slowing down through the firmness of the D-Mark, the main prop of the German economy has recently been domestic demand. Those calling for more German action to stimulate growth have thus concentrated on measures to enliven the home economy such as tax and interest rate reductions.

But Mr Schlesinger argued that monetary policy could only have a limited effect on German growth at present. "The supply of liquidity in the economy is adequate, and interest rates are historically low. The profit and income position of companies and private households remains favourable," he said.

Therefore, he added, they would react little to further interest rate cuts. The Bundesbank recently allowed money market rates to soften through lowering the rate on its securities repurchase agreements.

But it has so far resisted demands for further cuts in its key discount and Lombard rates, currently at 3 and 5 per cent respectively, the levels to which they were reduced in January.

However, one of Germany's leading bankers called on the central bank to consider cutting these rates further in an attempt to counter the rise of the D-Mark. Mr Walter Seipp, chairman of Commerzbank, said the key rates should not be "taboo."

Mr Schlesinger referred in his speech to the importance of interest rate adjustments in currency markets, noting that central bank intervention had to be limited by the extent to which it endangered monetary stability.

The interest rate difference between the US and Germany was now 4 per cent, he commented. "In this way, a considerable counterweight against further revaluation expectations has been formed."

Seeking to set out both the short- and long-term factors affecting Bundesbank policies, Mr Schlesinger said the central bank would probably continue to be faced with "a difficult balancing act."

Having overshot its target by a wide margin last year, as foreign money flooded into D-Mark investments, central bank money stock in April was nearly 8 per cent above the level of the fourth quarter of 1986 compared with a target range of between 3 and 6 per cent.

Mr Schlesinger, well known as an advocate of maintaining adherence to medium-term goals and not be-

Continued on Page 24

Guinness scandal forces up costs of UK takeovers

BY OUR FINANCIAL STAFF

PREDATOR companies generally are having to pay significantly higher prices to clinch victory in British takeover battles. This is because of the more cautious attitude by financial circles to bids which has followed the Guinness scandal, according to a Financial Times survey of leading UK fund managers.

About 12 fund managers denied that their own attitudes to bids had changed but acknowledged that predators were generally having to pay higher "bid premiums" to win control.

Since the start of the year, a string of contested bids have ended in failure: the £1.2bn ($2.01bn) offer by BTR, the industrial holding company, for Pilkington Brothers, the glassmaker; the £570m bid by Williams Holding for fellow conglomerate Norcros; the £187m bid by English China Clays for Bryant Holdings and the £82m offer by industrial group Wardle Storeys for Chamberlain Phipps, the shoe component manufacturer.

Successful bids included the £281m Ranks Hovis McDougall offer for fellow food group, Avana, and Tesco's £228m offer, for Hillards, the Yorkshire supermarkets group, the latter provoking an attack on institutional "selfishness" by Mr Peter Hartley, chairman of Hillards. Both bids were widely regarded as being particularly generous prices.

Several fund managers said that to win a contested bid now, a company would probably have to pay a price which fully reflected the most optimistic view of the target's prospects over the next few years, or, measured another way, a premium of 20 to 30 per cent above what the market thought the company was worth.

Although the Guinness affair was widely cited as a key element in this shift, several managers said last summer's successful defence by Woolworth Holdings against the bid from Dixons, the high street retailer, also had been important.

There was widespread dismissal of the theory that Pilkington's successful defence marked a fundamental change in institutional attitudes. "Pilkington won that battle entirely on the company's merits," said one fund manager. "It is just a coincidence that it happened at the same time as the Guinness affair was breaking."

Fund managers generally denied Guinness had made any difference to their own behaviour, but some might now be more reluctant to accept bids because of hostility towards them from trustees of their funds.

New rules on the disclosure of share dealings introduced by the Takeover Panel last February in the wake of the Guinness scandal appear to have curbed activity during bids by arbitrageurs – dealers who buy into a company involved in a takeover in the hope of selling out at a higher price. But the rules do not seem to have influenced greatly the behaviour of fund managers.

Under the new rules, shareholders owing more than 1 per cent of a company involved in a bid have to disclose any sale or purchase of shares. Most fund managers in the FT survey said they rarely sold shares in a target company during the bid and the new rules would not affect their behaviour.

Bonn holds key to Nato arms accord

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT, IN LONDON

NATO defence ministers will make another attempt in Brussels today and tomorrow to forge a joint Alliance position on the Soviet Union's latest arms control proposal, amid signs of growing impatience in both Moscow and Washington with the delays caused by European disagreements.

Although a final decision is not expected to be taken before the Nato foreign ministers' meeting in Reykjavik on June 11, defence ministers are expected to review the situation in the light of last week's meetings between President Francois Mitterrand of France and Chancellor Helmut Kohl of West Germany.

With both Mr Mitterrand and Mrs Margaret Thatcher, the British Prime Minister, now clearly on record as favouring at least some form of the Soviet "double zero" option – under which all intermediate-range nuclear forces (INF) would be removed from Europe – Bonn's position is now more than ever the key to a common Nato stand.

After his talks with French leaders in Paris, Mr Kohl, whose coalition Government is sharply divided over the Soviet offer, said the West German Cabinet would announce its position on June 4.

The Chancellor gave a small hint of how a compromise could be reached between his own view that reductions of battlefield nuclear weapons should be included in any INF deal and that of Mr Hans-Dietrich Genscher, his Liberal Party Foreign Minister, who strongly supports the "double-zero" option.

Mr Helmut Kohl

Mr Kohl denied that he was proposing any formal link between battlefield weapons and the two other categories of medium-range missiles under discussion, and promised that Bonn would adopt a "pragmatic" position.

In the absence of any need to take a final decision, Nato defence ministers will devote much of their time to considering so-called "compensatory measures" which the Alliance's military commanders deem necessary to plug the gaps in Nato's defences which would be left in the event of an agreement between the US and the Soviet Union on removing medium-range missiles from Europe.

Britain blocks EC code on S. Africa

BY QUENTIN PEEL IN BRUSSELS

BRITAIN yesterday blocked the adoption of a new European Community "charter of principles" for the future development of South Africa, which would include a commitment to political unity, protection of minority groups, and equality before the law.

Sir Geoffrey Howe, the British Foreign Secretary, argued strongly that the time was not right for such an initiative, following the conservative swing in the latest whites-only election.

He was opposed by Mr Hans van den Broeck, the Dutch Foreign Minister, who said that a public statement of such principles for a post apartheid South Africa would be an essential part of the EC strategy of combining sanctions with confidence-building measures in the country.

The debate on South Africa left the EC foreign ministers once again in disarray over their joint action, with radically differing versions from the participants on what actually happened in the debate.

British officials insisted that Sir Geoffrey won strong support from other member states for his argument that the South African Government would be particularly "unreceptive" to any new and public demarche.

Mr Van den Broek said that he was was supported by a large majority, with only the UK and Portugal opposing the move.

It pays to shop around for duty-free goods

By William Dawkins in Brussels

SUMMER holidaymakers should compare prices carefully before splashing out on duty-free luxuries. Otherwise they could end up paying too much, a leading European consumer group warned yesterday.

They should be wary of stocking up too eagerly at duty-free shops in Frankfurt, Brussels and London Heathrow airports – the most expensive in the EC – suggests a survey by Beuc, the bureau of European consumer unions.

The booklet, meant as a financial survival guide for cost-conscious tourists, questions the widely held assumption that the best bargains on tobacco, perfumes and drinks are guaranteed to be found at airport duty-free shops. It also exposes some startling price differences across the EC for non duty-free consumer goods from personal stereos to tennis rackets.

And when it comes to getting hold of local currency to pay for such holiday items, Beuc's investigators have revealed discrepancies in exchange rates – often in the same city – big enough to wipe out any price savings.

On duty-free items, the survey reports that a bottle of gin bought at Frankfurt airport would actually cost more than its equivalent in a non duty-free store on the streets of Madrid or Milan. Anybody holidaying in Spain would also do well to stock up on aftershave. It costs nearly 10 per cent less – including tax – than it would without duty in Heathrow.

Overall, Athens airport emerges as the best place for duty-free bargains. Cigarettes there are 30 per cent cheaper and perfumes 50 per cent less than in Brussels, the Community's costliest airport for those two products.

Madrid airport, like the non duty-free shops in the city itself, is the cheapest in the EC for drink. Its alcohol prices are 30 per cent lower than in Frankfurt, which has the EC's most expensive duty-free alcohol, while Amsterdam wins the cheap aftershave stakes, beating London by 32 per cent.

Once holidaymakers reach their destination, they can often make big savings on non duty-free goods, bearing in mind that they will have to pay extra tax on personal imports worth more than Ecu 350 ($419), advises Beuc. In this respect, Britain emerges as the cheapest in the EC for personal stereos, compact discs and blank video tapes, where it is between 39 per cent and 135 per cent cheaper than Denmark, the costliest member state for most consumer goods.

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JAPAN TRIES TO TAKE THE HEAT OUT OF ROW OVER TRADE

Mr Yasuhiro Nakasone begins new effort to end hostility to his trade, policy, Page 24

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OVERSEAS NEWS

EC farm chief warns on price talks deadlock

BY TIM DICKSON IN BRUSSELS

EUROPEAN COMMUNITY agriculture ministers were accused yesterday of "budgetary schizophrenia" as the tension started to rise in the crucial farm price talks in Brussels.

The reprimand came from Mr Frans Andiessen, the Community's Farm Commissioner, who spelt out the increasingly grim financial consequences of failure to accept further significant reforms of the Common Agricultural Policy. The message was also conveyed to foreign affairs ministers who were also meeting yesterday.

In a move which will deepen anxiety both in the US and among many developing nations, Mr Andriessen also signalled his complete refusal to drop the EC's controversial proposal for a new tax on vegetable oils and fats.

The latest warning on the Community budget came in response to a second "compromise" paper put forward by Mr Paul de Keersmaeker, Belgium's Agriculture Minister and currently chairman of the EC Farm Council.

Delivered to ministers on Sunday, it followed last week's unsuccessful attempt to break the prices deadlock and included new, and largely technical modifications to the Commission's original highly restrictive package.

Among the new suggestions is a change in the agri-monetary system of green currencies and monetary compensatory amounts which would imply smaller price reductions for West German farmers, and new "solutions" for the rice, fruit and vegetable and wine regimes. The oils and fats tax and the earlier proposal for a change in the intervention system for cereals remain essentially intact.

Mr Andriessen's intention yesterday was to highlight the extra "cost" of the new paper. This has been put by the Commission at Ecu 760m for this year and Ecu 840m for 1988. That means that whereas the original Commission proposals would have saved an estimated Ecu 1.1bn this year, only Ecu 340m will be saved if Mr de Keersmaeker's latest ideas are to be adopted.

The result, according to Mr Andriessen, would be an EC budget deficit for agriculture alone of Ecu 4.115bn this year. "These figures," he adds, "are calculated on the hypothesis of a $-Ecu ratio for 1987 of 0.90. Such an hypothesis may well become over-optimistic."

Ministers take tough action on extradition

BY WILLIAM DAWKINS IN BRUSSELS

EC Justice Ministers yesterday agreed a series of measures to streamline and toughen extradition procedures between member states.

The decisions were welcomed in Brussels as potentially easing the way for the extradition for trial in Belgium of 26 British football supporters charged with manslaughter at Heysel stadium two years ago.

Yesterday's accord will allow foreigners sentenced in one member state to opt to serve out their punishment in a prison at home. This would allow the British football supporters to be tried in a Belgian court, and if given a jail term, returned to UK prisons.

Ministers also agreed to look at ways of speeding up and improving the efficiency of the exchange of extradition papers between member states. The idea was proposed by Belgium, present President of the Council of Ministers, which was angered last month when extradition proceedings against the supporters collapsed in the UK.

In a further accord, they accepted that defendants tried and judged in one member state cannot be prosecuted and condemned for the same incident in another. This is already the case in most EC countries' national laws, but its existence at a Community level is expected to help different public authorities exchange information.

Gorbachev seeks closer ties with Romania

By Patrick Cockburn in Bucharest

MR Mikhail Gorbachev started talks in Bucharest yesterday with President Nicolae Ceausescu, the Romanian leader, at the start of a three-day visit likely to prove the most testing undertaken by the Soviet leader in Eastern Europe.

Tens of thousand of Romanians lined the streets from the airport into Bucharest in a heavily-regimented display of welcome for the two leaders who immediately went into talks on economic relations.

Romania, although a member of the Warsaw Pact, has always pursued strongly independent foreign and economic policies which have led to friction with Moscow. At the same time, President Ceausescu has for 22 years run the country as a highly authoritarian state, in increasingly obvious contrast to the more democratic socialist system advocated by Mr Gorbachev.

Western diplomats in Bucharest said that Mr Gorbachev's policies had a strong appeal for ordinary Romanians, whose living standards had dropped since 1979 as the Government gives priority to increasing exports to pay off its $5.8bn (£3.5bn) debt.

"Our commitment is to modernisation and to repaying our debts," said a Romanian official yesterday. Nevertheless the difficulty faced by Romanian industry in finding export markets in the West has led to an increasing emphasis on trade with the Soviet Union.

Mr Gorbachev is likely to stress that Moscow wants greater co-operation with Romania, as with the economies of the other Socialist states, and does not wan to sell oil and gas in return for sub-standard industrial goods.

Romania is likely to stress foreign policy issues on which it is now largely in agreement with Moscow, but officials are nervous of the effects of Mr Gorbachev's more liberal policies.

Pravda and Izvesta, the two leading Soviet newspapers, are not on sale in Bucharest in common with the press from the rest of the Eastern bloc.

It is doubtful, however, that Mr Gorbachev will go out of his way during this week's visit to criticise the way in which Romania is run or President Ceausescu's decision to allow living standards to fall to pay [illegible] foreign debt.

US officials hold Baghdad talks

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

OFFICIALS from the US Defence and State Departments, investigating the Iraqi attack on a US frigate a week ago, held their first day of talks with counterparts in Baghdad yesterday, against a background of intensifying controversy in Washington about US policy in the Gulf.

President Ronald Reagan insisted again, at the weekend, that a US presence in the Gulf is essential because America has vital strategic and economic interests in a region, which could became a "choke-point of freedom" if it were to fall into the hands of an hostile power.

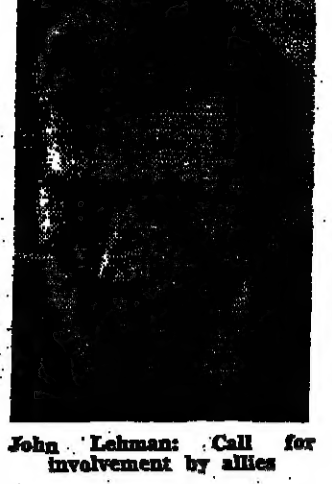
However, both Republican and Democratic party leaders in Congress here are expressing dismay at the events which led up to the attack on the frigate and concern about the administration's future policies on the Gulf.

Last week, the Senate voted overwhelmingly to oppose implementation of an agreement to put 11 Kuwaiti oil tankers under US protection by registering them under the American flag, until the administration has compiled a full report on security plans for protection of US and allied forces in the area.

Mr Said Rajaie Khorassani, Iran's ambassador to the United Nations, has warned that, if Iran "has every intention of attacking a Kuwaiti tanker, it will continue with that policy regardless of whose flag it is carrying." This has added to Congressional concerns about the next US moves in the Gulf.

Senator John Glenn, a member of one of three teams of Congressional investigators now in the Gulf, has said he fears a crisis if a Kuwaiti tanker flying an American flag were attacked. "Are we willing to go to war over that?" he asked.

Echoing this concern—and the growing conviction that a wider involvement of US allies



John Lehman: Call for involvement by allies

is needed—Mr John Lehman, a former US Navy Secretary, said, "there is another set of rules of engagement that will be needed if, in fact, we interpose ourselves between the Iranians and Kuwaiti tankers. I would say, before we enter a situation that greatly increases the probability of an act of war, we have to bring the allies in to get a clear understanding of who is going to do what, if an act of war takes place."

Mr Saspar Weinberger, US Defence Secretary, has called for states in the Gulf to allow US aircraft to land and take-off from airstrips close to the area, saying this would be "a very desirable addition," as the US steps up its forces in the region.

AP adds from Dubai: An Iranian official warned the US and the Soviet Union at the weekend that an increase in their presence in the Gulf region would lead to an "explosive situation."

Hussein Skeikholeslam, a Deputy Foreign Minister, repeated at a news conference Iranian charges that the Iraqi attack on a US frigate was "not a mistake."

Haig Simonian looks at Berlin's boisterous 'Little Istanbul'

Kreuzberg's volatile mix on the boil

THE AUBERGINES, green peppers and huge Mediterranean tomatoes piled high at the twice-weekly Turkish market near an underground station in Kreuzberg, West Berlin's most run-down inner city suburb, say much about how the district gained its nickname of "Little Istanbul."

But although Turkish immigrants make up about 10 per cent of West Berlin's 2m population, and account for a much larger share in run down Kreuzberg, inner-city racian tension is just one of the problems which led to the spate of weekend rioting in the district earlier this month.

For Kreuzberg is more than just another run down inner city slum, with the usual social and economic problems to boot. Unlike Brixton or the Bronx it is also a magnet for many young West Germans who go there to escape from what they feel is a stifling conformity in the Federal Republic. Over the years, Kreuzberg has become a symbol for individualism in what is unquestionably Western Europe's least conformist city.

Almost every splinter group under the sun seems to be represented here, ranging from rainbow haired punks to relics from 1968. It is little wonder that the area, with its easier way of life and fewer questions asked, is also home to West Germany's largest gay community.

Nestling along the Berlin wall, Kreuzberg's run-down tenements offer the cheap accommodation essential for poor immigrants and "alternatives" alike. Some pay no rent at all, squatting in flats tucked away in the back courtyards of Kreuzberg's traditional five- or six-storey tenements where the outside world is left further behind as one inner courtyard merges into the next.

Uprooting to Berlin offers an additional advantage to many young West German males as the city's political status under the allies means they do not have to do national service.

Starting with "anarchism" and ending with "Zen" the plentiful local graffitti gives some ideas of the range of "alternative" tastes on offer.

Although it is a heady mix, the breadth of Kreuzberg's social diversity alone is not enough to explain why its residents took to the streets in such large numbers earlier this month to embark on one of the most serious wave of rioting Berlin has ever seen. For a while, Kreuzberg became a "no go" area where even the police kept their distance and

> The area appears to attract almost all splinter groups under the sun

and firemen came under attack.

Some streets still bear the scars of burned out cars while the ruins of a supermarket extensively looted before being put to the torch bear witness to the heat of feeling. Not surprisingly, Kreuzberg is not expected to feature on the list of places visited by the Queen when she comes to Berlin today.

The reasons that brought Kreuzbergers out on to the strets were almost as mixed as the residents themselves. Indeed the area is so heterogenious that the locals are probably only united in their opposition to "authority" rather than sharing in any great neighbourhood fellow feeling.

That Kreuzberg is poor, with large and growing numbers of people living below the poverty line, is just a social backdrop. Recently a string of factors have come together to raise the local temperature.

Top of the list is a strong sense that Kreuzberg has been overlooked in the festivity's prestige projects and general beanfeasting hat is now in full swing to commemorate Berlin's 750th anniversary.

"What use is a massive swimming pool complex"—the local prestige project—"when your roof leaks and you can't afford to fix it," complains one resident. Attempts by the local council to smarten up the façades of houses with a lick of paint and not more more have just been salt in the wound.

Then there is the issue of West Germany's census, which has just been completed. The topic is controversial among left-wingers all over the country, with the environmental Green Party calling for a boycott. But feelings run particularly high in Kreuzberg, where many residents, be they illegal immigrants or just drop-outs would prefer not to be counted.

However, the biggest local tinder-box at present is the planned abolition of Berlin's rent-control laws, which have hitherto kept some rents astonishingly low.

While the right-wingers on the Berlin Senate want to fall in line with the rump of West Germany, many Kreuzbergers see things differently.

Fresh blow to Israeli security services

By Andrew Whitley in Jerusalem

ISRAEL'S troubled security services have suffered a devastating blow from a Supreme Court decision to release an army officer convicted in 1980 by a secret military court of treason and espionage.

In an unprecedented ruling on Sunday night the Supreme Court overturned the main charges against Lieutenant Izat Nafsu, a Circassian Muslim, on the grounds that evidence against him had been concocted by the Shin Bet, the internal security service.

Lieutenant Nafsu, who was serving in southern Lebanon at the time of his arrest, consistently claimed from jail that he had bean forced into making a false confession. His case only came to light recently following a legislative change—permitting appeals from military courts to the civilian Supreme Court.

The quashing of the conviction also marks a rebuff for the Shamir Government, which manoeuvred unsuccessfully to prevent the Nafsu case becoming public, for fear of the precedent it might set.

Many of the 4,000 Palestinian prisoners currently serving sentences in Israeli jjaijlis on security charges have similarly been convicted on the basis of unchallengable evidence, presented by the Shin Bet, who claim that to question its basis would reveal the agency's sources and methods.

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OVERSEAS NEWS

Greeks to vote on US military bases

By Andriana Ierodiaconou in Athens

DR ANDREAS PAPANDREOU, the Greek Socialist Prime Minister, has said he will seek a referendum on the continued presence of the four US military bases in Greece beyond 1988, when the present agreement on their operation expires.

The referendum will be held upon the completion of negotiations for a new bases agreement with the American side. Dr Papandreou has said his Government is waiting for a formal request for the start of negotiations from Washington.

The Prime Minister made his intentions known during a vote of confidence debate in Parliament over the weekend. This vote was proposed by Dr Papandreou himself last week in a bid to end the damage to his Government of allegations of financial misdeeds in the public sector.

The vote was carried by the Socialists as expected on the strength of their parliamentary majority, with 157 votes in favour to 139 against, representing both the conservatives and the communist opposition, with two blank ballots and two abstentions.

Mitterrand visit seals Quebec understanding

BY ROBERT GIBBENS IN MONTREAL

FRENCH PRESIDENT François Mitterrand has begun the first official visit by a French head of state to Canada for 20 years, emphasising that a modus vivendi has been reached between Ottawa and Paris on France's role in Quebec's development.

President Mitterrand has started his visit in Ottawa, and will address the House of Commons. Then he flies to Gaspé, in the Gulf of St Lawrence, where explorer Jacques Cartier landed in 1534 to found New France.

Next he goes to Quebec City and Montreal. Finally he flies to Saskatchewan in the West, back to Toronto and then to St Pierre et Miquelon, the two French owned islands off the coast of Newfoundland. Ottawa and Paris are in dispute over Canada's claim to a 200-mile offshore limit. This would restrict the fishing rights of the two French islands.

Mr François Mitterrand

Since President de Gaulle shouted his famous "Vive le Québec Libre" from the balcony of Montreal City Hall in 1967, Ottawa and Paris have been at loggerheads on Quebec. Successive French ministers have openly interfered in Canadian domestic affairs by encouraging Quebec separatism, while Quebec provincial governments have played off Paris against Ottawa in the fight for more political autonomy.

The Conservative Government of the Prime Minister, Mr Brian Mulroney, in Ottawa has recently reached a tentative formula to bring Quebec into the 1982 Canadian constitution and has tried hard to end 20 years of bickering over Quebec's representation in Paris. It has authorised Paris and Quebec to have direct diplomatic ties on a wide range of subjects without federal supervision.

No federal minister will be on hand when President Mitterrand is in Quebec and Montreal during his visit.

French officials have indicated that Paris now accepts Canada as it is, and is interested solely in extending basic economic and cultural ties.

Indian riot cities put under tight security

THOUSANDS of soldiers and police tightened their grip yesterday on the north Indian city of Meerut and on Delhi's old walled city, Reuter reports from New Delhi.

The two areas have been ravaged by nine days of Hindu-Moslem violence that has killed at least 89 people.

The rubble-strewn streets were deserted except for police foot patrols and convoys of army trucks with mounted machine-guns.

Security forces continued house-to-house searches for weapons and rounded up suspects. Police described the situation in Delhi and Meerut as tense but under control.

Eight people have been killed since Tuesday in the capital's congested walled city where about 800,000 people live. Meerut, which is under curfew, looked like a ghost town, with even the animals shut away.

Authorities have banned all public gatherings except religious services in Uttar Pradesh state, east of Delhi, to forestall further communal clashes. The fighting there in the past week has been some of the bloodiest since the India-Pakistan partition riots of 1947.

The cause of the riots in both Delhi and Meerut is unclear but tension between the majority Hindus and minority Moslems is so high that even a trivial incident can spark a communal flare-up.

Black metalwork unions merge

BY ANTHONY ROBINSON IN JOHANNESBURG

SEVEN black trade unions in South Africa's engineering, automobile and metal-working industries have merged to create the 130,000-strong National Union of Metalworkers of South Africa. They elected Mr Moses Mayekiso, a union leader presently on trial for treason, as their first general secretary.

The new union groups together three motor industry unions, engineering unions and general unions with members across a broad spread of engineering. It will affiliate with the Congress of South African Trade Unions, the largest union federation.

The culmination at the weekend of nearly two years of merger negotiations marks a big step forward in the federation's aim of reorganising the union movement into a few powerful unions on the basis of one industry, one union.

Mr Mayekiso is awaiting trial on treason charges arising out of his role as an unofficial community leader in the Johannesburg township of Alexandra.

Le Pen's ghost attends Chirac feast

BY GEORGE GRAHAM IN PARIS

MR JACQUES CHIRAC, France's Prime Minister, yesterday sought to lay to rest the dissensions over how to deal with the extreme right wing which has split his majority in the past few weeks and threaten his chances of success in next year's presidential elections.

The Prime Minister appeared last week to have decided in favour of trying to woo voters away from the extremist Front National Party headed by Mr Jean-Marie le Pen. Yesterday, however, he held a conciliatory meeting with members of his Government who had wanted to denounce Mr le Pen's anti-immigrant, anti-AIDS rhetoric.

Among them was Mr Michel Noir, the Trade Minister, who last week came close to resignation from the Government over the issue of the current attitude to adopt to the Front National. Had Mr Noir gone, up to five other ministers might have felt compelled to follow his example.

The ghost of Mr Le Pen was very present on Sunday at what should have been the feast to launch Mr Chirac's candidature for the presidency—a 35,000-strong convention of his RPR party.

The Front National leader was never mentioned by name, but every speech was assessed in terms of the attitude it expressed towards the extreme right, which is currently winning 10 per cent of the votes in opinion polls.

Floods hit Poland

By Christopher Bobinski in Warsaw

HEAVY RAIN in south-eastern Poland has caused serious flooding over about 50,000 hectares of farm land and disrupted communications, power supplies and industry.

Conditions began to improve over the weekend but plants in the south-eastern town of Krosno were reported under water, while output had to be halted in 96 factories in Rzeszow province because of the flood threat.

The flooding has claimed one victim, a truck driver, and hundreds of people have had to be evacuated from their homes.

● Senator Edward Kennedy completed a four-day visit to Poland, during which he met Polish officials as well as Mr Lech Walesa and other Solidarity leaders.

Gadaffi calls for industrial reform

BY TONY WALKER IN CAIRO

COLONEL Muammar Gadaffi of Libya has attacked his country's economic performance, stating that industry is on the verge of collapse and beset by mismanagement, theft and absenteeism.

In a harsh critique of Libya's economic problems, Col Gadaffi called for urgent reforms to provide incentives to workers, cut imports and encourage exports.

"Industry in this country will not progress. On the contrary, we expect that in the coming period the industrial base, which we have established, will collapse," he told senior officials in a speech shown on television at the weekend.

It appears to have been Col Gadaffi's bluntest statement yet on the economic malaise affecting his country, which has been hit hard by the oil price fall. The speech is regarded as a further sign of pressures on the Libyan leader.

Libya's oil revenues in 1980-1981 reached about $20bn (£12bn). Oil exports dropped to about $5.5bn last year.

Col Gadaffi has also been engaged in an expensive war in Chad. His forces were routed in March in northern Chad with the loss of millions of dollars' worth of military equipment, most of it supplied by the Soviet Union.

Libya's experiment with a primitive form of grassroots socialism appears to have yielded few benefits. The private sector has been stifled and shortages are endemic.

Zambia appeals for Nordic aid

By Sara Webb in Stockholm

MR KEBBY MUSOKOTWANE, the Zambian Prime Minister, held talks with Swedish ministers yesterday in Stockholm to appeal to Sweden for further aid.

Mr Musokotwane began his tour of the Nordic aid donors in Sweden, saying: "It was not by mistake, but by a deliberate plan, that we came here first."

Sweden donates more than its Nordic neighbours in aid to Zambia and places priority on three areas—agriculture, health and education. Swedish aid to Zambia amounted to SKr 205m (£19.5m) in the 1986-87 financial years and will be increased to SKr 230m in 1987-88.

Anthony Robinson on S Africa's newest homeland

Screams in the night in a KwaNdebele police cell

SWORN affidavits signed by three black reporters from the Johannesburg Star newspaper have provided graphic confirmation of police brutality in KwaNdebele, the dusty homeland north of Pretoria which is destined for so-called "independence" later this year.

The three reporters, including senior reporter Jon Qwelane and photographer Herbert Mabuse, were detained for three nights in crowded police cells at Kwaggafontein last week. They reported that at least seven detainees were beaten unconscious with pick-handles before their eyes during interrogation aimed at linking them to widespread resistance against the latest Pretoria-backed plans for independence under Chief Minister George Mahlangu.

They saw at least 10 other incidents where detainees were punched, kicked and threatened and heard screams throughout the night followed by the return of badly beaten detainees to the overcrowded cells. Colonel Andries Kuhn, the Afrikaner deputy police commissioner in KwaNdebele, said the police woud investigate the complaints.

KwaNdebele is a notional state carved out of Transvaal highveld bush to accommodate an estimated 500,000 people deemed to be Ndebele, remnants of an Nguni-speaking tribe scattered in the late 19th century after repeated clashes over land and cattle with armed Boer commandos.

Many have re-settled there over the past decade after forced removal from their settlements or eviction from farms. But the majority have built homes ranging from elaborate ranch-style bungalows to tin and cardboard shacks as the only way of securing a home within proximity of work in the Pretoria or Witbank areas. For over 40,000 Ndebele this means daily commuter bus rides of up to three hours each way.

As part of the preparations for independence Pretoria is investing large sums in infrastructure and offering companies generous inducements to re-locate at two industrial growth areas, Siyabuswa and Ekandustria. The latter is only 90 kms from Pretoria at the southern extremity of the homeland. Pretoria is also funding a new "capital" called KwaMahlangu whose new legislative assembly, post office, ministerial buildings and sports stadium have continued to rise from the virgin bush over the past 18 months despite the rejection of independence by the Legislative Assembly last August.

Rejection was greeted by widespread jubilation and spontaneous celebration, especially in the Moutse area where over 120,000 non-Ndebele speaking people had been forcibly incorporated into the new state amid violent protests. Over 120 people died last year in clashes with vigilantes called the Mbokhoto. These vigilantes were linked to the brutal Minister of the Interior, Mr Piet Ntuli, who is believed to have blown himself up accidentally last July while carrying a bomb in his car. Two months later the pro-independence Chief Minister, Mr Simon Skosana, died of diabetes was was replaced last November by Mr. George Mahlangu.

Mr Mahlangu, who managed to reverse the anti-independence vote last month after the arrest or flight of key opponents, including leading tribal chiefs, is closely identified with the Mbokhoto vigilantes. The transvaal Attorney General is in possession of affidavits accusing him of abducting and torturing youths during the rebellion against independence last year.

Despite the anguish of several white officials, and widespread popular opposition, Pretoria is still determined to go ahead with "independence", a solution which will remove another half-million blacks from "white" South Africa.

Manila privatisation row delays sale of oil entity

BY RICHARD GOURLAY IN MANILA

PRIVATISATION in the Philippines is lagging amid signs that President Corazon Aquino's closest adviser does not back her publicly stated policy of encouraging foreign investment in the country.

A row has erupted over privatisation of part of the Philippine National Oil Corporation, which Mr Jaime Ongpin, the Finance Secretary, has loudly advertised as the Government's first big prospective disposal.

Mr Joker Arroyo, the president's influential executive secretary, has opposed the move in what is appearing as a fundamental division in the cabinet.

There is growing disappointment among top finance department officials that their efforts to impulement Mrs Aquino's economic policies are being blocked by nationalist ministers.

Mrs Aquino yesterday ordered the government's Committee on Privatisation, led by Mr Ongpin, and the oil entity to resolve thetir differences. However, she also asked Mr Ongpin why a profitable government corporation should be privatised, apprently going against her previous public support for privatisation.

In March, the corporation's board approved a privatisation plan for the company's distribution nd refining arm, which would leave 35 per cent of the shares in government hands. British Petroleum is among potential buyers. The corporation is valued t between $83m nd $165m.

More than 115 government entities have been identified for privatisation but none have received so far approval from Mrs Aquino.

Fiji power deal appears fragile

BY CHRIS SHERWELL IN SYDNEY

FIJI'S COMPROMISE power arrangements appeared increasingly fragile yesterday.

The government leaders who were deposed in the May 14 military coup boycotted the first meeting of the Governor-General's new council of advisers. This followed the decision of their two-party coalition to call a campaign of civil disobedience against the compromise.

Dr Timoci Bavadra, the deposed Prime Minister, and his deputy, Mr Harish Sharma, had both been named to the council of advisers. Portfolios have been allocated by Ratu Sir Penaia Ganilau, the Governor-General.

The Governor-General assigned the foreign affairs position to Ratu Kamesese Mara, the former Prime Minister who was defeated in last month's general election and who joined the military regime initially set up by Lt Col Sitiveni Rabuka.

Significantly, Lt Col Rabuka was not specifically named on the 19-member council yesterday, even though he is a member. Instead his position as adviser on home affairs "including all disciplinary forces" was allocated to "the officer commanding the royal Fiji military forces reporting direct to His Excellency the Commander-in-Chief."

Despite his boycott, Dr Bavadra appeared further down the list as adviser on health and social welfare, while Mr Sharma was allocated the labour and immigration portfolio. Neither has been sworn in, or even seen the Governor-General since their original indication they were prepared to serve on the council.

It seems clear that the Governor-General has been forced to compromise with Lt-Col Rabuka more than he wished in the composition of the council, thereby antagonising Dr Bavadra.

Although Dr Bavadra now says he opposes participation because the council was illegally installed, he also appears to be unhappy because its membership is imbalanced in favour of Ratu Mara's Alliance Party.

His campaign of civil disobedience is expected to get under way today, with calls for strikes by sugar workers and shop closures in Suva, Nadi and Lautoka. Calm returned to the streets of Suva yesterday after more than a week of disruption.

World Economic Indicators

RETAIL PRICES (1980 = 100)

	Mar. 87	Feb. 87	Jan. 87	Mar. 86	% change over previous year
US	136.3	135.7	135.2	132.3	+3.0
W. Germany	120.7	120.7	120.6	120.9	−0.2
France	165.8	165.5	165.2	161.4	+3.4
Italy	208.0	207.2	206.3	201.0	+4.2
Netherlands	121.9	121.6	121.3	123.2	−0.7
Belgium	143.7	143.6	143.3	142.0	+1.3
UK	150.5	150.2	149.6	146.4	+4.0
Japan	114.3	114.1	114.1	115.9	−0.8

Source (except US): Eurostat

S. Korea ministers may quit over torture

By Maggie Ford in Seoul

ALLEGATIONS of a police cover-up in the investigation of the torture to death of a South Korean student, are thought likely to provoke the resignation of a number of Cabinet ministers this week.

President Chun Doo Hwan has ordered a full investigation into the cover-up, which was revealed by a group of Catholic priests acting on information from the dead student's father.

Two police officers were originally charged with the murder of Pak Chong Chol, 21, who was suffocated when his head was forced into water in a bath-tub during interrogation. According to the family of one of the accused officers, at least three more policemen were involved.

When the death of the student was revealed in January, the home affairs minister and the police chief were sacked. South Korea's president apologised to the people for the human rights abuse.

News of the police cover-up comes at a bad time for the Government. Popular protest is growing against the president's decision to call off talks that would lead to democracy until after the Olympic Games here next year.

Kevin Done reports on a poll arising from a dispute over a US base

Modernised Greenland votes today

WITH BALLOT papers and election literature delivered by helicopter and dogsled to the isolated Arctic communities, Greenland, the world's biggest island, goes to the polls today for the fourth time since the country won the right of home rule from Denmark in 1979.

A Danish colony until 1953, when it became an integral part of the kingdom of Denmark, Greenland has gone through a turbulent period of hectic development in which the old Eskimo—or Inuit as the Greenlanders prefer—hunting culture has been transformed in the space of a generation into a modern industrial welfare state, dependent for its livelihood on a capital-intensive fishing industry and continuing financial support from Denmark, and suffering from deep-rooted social problems.

"There has been a colossal change; my father sat in a kayak and hunted seals and we lived from his hunting," says Mr Jonathan Motzfeldt, leader of Greenland's Home Rule government and chairman of the ruling Social Democratic Siumut Party, which has dominated Greenland politics since the first political parties were formed only 10 years ago.

"We have gone from the kayak to being a modern society with all its pluses and minuses."

A Lutheran minister with pretensions to becoming Greenland's first bishop, Mr Motzfeldt has led Greenland out of the European Community—it left in early 1985—but the strong desire for Greenlandic autonomy has not undermined his continued firm support for the presence of two US military bases in the country.

Under the terms of home rule, Denmark retains control of foreign policy, defence and justice, but almost all the other functions of the old colonial power have been handed over to the local administration.

The process will be completed when control over the health service is transferred to Nuuk, the Greenlandic capital at the beginning of 1989.

> 'There has been a colossal change. My father used to sit in a kayak and hunt seals—and we lived from his hunting. We have gone from the kayak to being a modern society, with all its pluses and minuses.'

Although security policy is handled from Copenhagen, it was a dispute over the US radar base at Thule in the extreme north-west of Greenland which precipitated today's election.

The US bases were established under the 1981 Danish-American agreement on the defence of Greenland, and Thule has the vital function as an integral part of the US Ballistic Missile Early Warning System (BMEWS), giving it a key role in the surveillance and control of the air space above the Arctic region and the North Atlantic.

The US has been undertaking a far-reaching modernisation of the Thule base with the installation of phased array radar, and a heated debate broke out in Denmark and Greenland in the spring with claims from the left wing that the new equipment breached the terms of the 1972 US/Soviet ABM (Anti-Ballistic Missile) Treaty.

The critics, which included the small left-wing Socialist Inuit Ataqatigiit party whose ultimate aim is independence for Greenland claimed that the new radar was a part of the US "Star Wars" Strategic Defence Initiative (SDI) and could be used for active missile defence through the control of anti-missile missiles.

After long debate the Folketing, the Danish Parliament, supported the Government's stance, however, that the new radar was purely defensive in character.

Ironically the base has played little part in the election campaign, which has been dominated instead by the question of privatisation and the overwhelming role played by the Home Rule administration and the public sector in Greenland's fragile economy.

Concern that private interests were being squeezed out has given birth to a new party, Issittup-Partii, Polar Party, formed by interests in Greenland's fishing industry and business community, which could now upset the pattern of Greenlandic politics established since 1979.

Hitherto the dominant role has been played by Mr Motzfeldt's Social Democratic Siumut party, which has ruled either alone or in coalition with more extreme left-wing Inuit Ataqatigiit (IA) party. At the last election in June 1984 Siumut won 44.1 per cent of the votes and 11 seats, IA won 12.1 per cent and three seats, and the centrist Atassut Party won 43.8 per cent and 11 seats. Both Siumut and Atassut are in favour of Greenland remaining a part of Denmark though with extensive autonomy.

Since the Home Rule administration took over in 1985 the KGH, the Royal Greenland Trade Department, which from the early colonial days in the 18th century has enjoyed a monopoly on trade from Denmark, has been expanding rapidly especially in the all-important fishing industry with the takeover of most of the country's fish processing plants and the buid-up of a substantial new trawler fleet.

FOCUS ON INTERNATIONALISATION OF JAPANESE MANAGEMENT

ADVERTISEMENT

After a successful rebuilding programme over the past decade, Canon Inc. is now directing itself to becoming a truly global corporation.

A large R&D budget is at the core of the group's success to date, and a stream of new products will keep the company at the forefront of business developments.

Along with this, Canon is progressively boosting offshore production, as it seeks to become a globally integrated organisation with an even broader spread of operations.

Canon's President, Ryuzaburo Kaku, recently discussed Canon's prospects along with the President of Canon Europa, Takeshi Mitarai and Tsuneo Enome, President of Canon Bretagne in France.

By Brian Robins

Left to right: Tsuneo Enome, President of Canon Bretagne S.A.; Ryuzaburo Kaku, President of Canon Inc.; Takeshi Mitarai, President of Canon Europa N.V.

Towards a Globally Integrated Corporation

***Robins:** 1987 marks Canon's 50th year of operation. Looking back, what two or three decisions or developments attributed to the group's success?*

Kaku: Because of the impact of the first oil crisis, Canon had to suspend dividends in early 1975. At that time we began a company-wide campaign to develop into a 'premier company'. We carried out this campaign in several phases. Firstly, we sought to attain the criteria for becoming a 'premier company' by developing the best possible means for our R&D, production and marketing. In order to develop unique technology in the early stages, we gradually increased R&D spending as a per cent of sales. It has grown from two to three per cent of turnover at that time, to over 10 per cent today.

Secondly, by adopting a product development system, we tried to revitalise our operations, giving responsibility to lower divisions, so they could work out the means of developing new products by themselves.

Thirdly, as part of our corporate philosophy, our basic idea is that we must work for mutual prosperity and co-operation throughout the world. Along with worldwide marketing and production, we are also studying the feasibility of having R&D activities added to our international operations. I think these are the three main reasons, or events, behind our success.

Foreign parts supply: Vital to continued success

***Robins:** Canon's philosophy of 'mutual prosperity' has resulted in a sizeable increase in foreign production and also the sourcing of key components offshore. Can you provide some details?*

Kaku: Canon has always worked closely with foreign expert suppliers to jointly develop new parts and components integral to our products. In the semiconductor field, for example, we have been dealing with companies like Texas Instruments, Fairchild, Motorola, National Semiconductor and Intel. We are one of the largest importers of semiconductors into Japan, importing ¥7 billion, which is equivalent to 24 per cent of the total of ¥29 billion (200 million chips) we purchased last year. We will boost the ratio of overseas chips to almost 30 per cent according to our planned imports for this year as well as sourcing additional chips from US groups manufacturing in Japan.

As an example, we will be importing jointly-developed LSI chips from Intel Corp. for our new range of photocopiers and printers. Similarly, with National Semiconductor, we are co-operating to develop integrated circuits and software for new products. Our new laser beam printer, for example, will incorporate its 32-bit microprocessor. And, in the camera field, Motorola's microprocessor is used in our newest autofocus single lens reflex (SLR) camera, EOS. With these activities underway, we cannot understand much of the ongoing trade difficulties with the US, since our foreign suppliers are integral to our entire operation.

European production growing rapidly

***Robins:** What proportion of Canon's production is located offshore, and will this increase?*

Enome: My responsibility is for office products manufacture in Europe, and we have operations in France and Germany. In terms of sales amounts, we produce half of all sales in Europe, and in terms of the number of units, we produce about 60 per cent of our volume sales.

***Robins:** How has that figure moved over the past few years?*

Enome: In Germany, since we started about 15 years ago, the growth of manufacturing has been approximately 10 per cent a year. But in France, where full-scale production began nearly three years ago, we are expanding production at an annual rate of 50 per cent.

***Robins:** Before the revaluation of the yen against the US dollar, up to 70 per cent of Canon's revenues came from overseas. What do you think is the best balance between exports and domestic sales in Japan?*

Mitarai: Talking only in terms of the ease of management, if the percentage of domestic sales is higher, it is easier for us to run the company. But as I am engaged in selling our products overseas, the percentage of overseas sales could be higher still in terms of the purchasing power of each country, and I think this percentage will grow gradually.

International integration the key

***Robins:** Do you see the day when Canon's head office will serve little more than a co-ordination function, also with responsibility for R&D, or is this too drastic a view?*

Kaku: As the end result, we are facing in this direction, but not because of the sudden hike in the yen. Even before this, we had such a plan. When I established the second phase of the 'premier company plan', I considered two things. (1) Due to technological advances, Canon will face more direct competition with big companies in Japan, for example, the large electrical appliance companies, and (2) Canon has to be a company operating globally—contributing to the local society wherever we go. As Mr. Mitarai said, if you consider the real purchasing power of each country we should be doing more overseas business, and doing the most for each local market, by developing and producing products most appropriate for that area. To achieve that, we cannot continue the system of exporting from Japan any longer. We should produce the products in the major countries, which are required in that area.

With this in mind, we have established plants at Bretagne (France), Virginia (USA) and in newly industrialising countries of Asia. We had been trying to achieve this even before the sudden yen hike. But while doing this, we were hit by the yen appreciation. The ideal would be for only 25 per cent of products to be manufactured locally (in Japan) for domestic sales, with the rest manufactured in overseas markets.

***Robins:** Canon has successfully handled the shift from consumer products to office products. What new product developments are underway?*

Kaku: As of this moment, there are three main product areas—cameras, business machines and optical products. Although we are not limited to these areas, they represent the main product groups. Even within these areas, there are so many new fields we can pursue. For example, in cameras, we are now working very extensively with 8mm video cameras. For future camera systems, we are working on still video, and selling some to professional users. With office automation (OA) products, we are working from OA to home automation, from stand-alone products to systematised products. In the optical area, we are working on semiconductor fabrication, medical and broadcasting systems. In, for example, OA systems, there are many things still to be done.

While we are restricted from moving into totally non-related areas, work in one area may result in related fields being developed. For example, in our copiers, we are working on amorphous silicon photosensitive drums, and this technology may be used in solar cells, solar energy and similar areas. Although I am telling our people not to move into non-related areas, even if we work within our existing areas, new business opportunities will undoubtedly arise.

With research and development, it is just like a cell, which reproduces itself by dividing into two, and then into four. Much of our work is something like this. At least until the next century, I am not worried about our businesses being limited. Canon started as a camera manufacturer, but now we are developing in the direction of information processing.

***Robins:** Is that a natural extension of your activities in office automation?*

Kaku: We are working extensively on opto-electronics systems, and this may see us working in biotechnology, which has nothing to do with our existing business. It's like an invention, you cannot invent something by your efforts alone. Often, by coincidence, you discover something. Canon's R&D activities are very similar to that.

***Robins:** How do you see your R&D expenditure expanding in the future?*

Kaku: On a parent company basis, apart from medical or pharmaceutical companies in Japan, Canon spends probably the largest portion of sales revenue on research and development of any company in Japan, and this will continue.

***Robins:** Do you have ideas about some special events to commemorate the 50th anniversary of the company?*

Kaku: For the first time, we will participate in TELECOM '87 in Geneva this autumn to show our latest technology in the telecommunications field. Also, we will organise Canon Exhibitions, first in Tokyo this autumn, and next spring in New York, Los Angeles and London to exhibit a total vision of our technology, corporate philosophy and corporate culture. We mark 1988 as our 'second initiation' year of the company to make further developments and become a really global corporation to realise co-existence and co-prosperity in the world.

OVERSEAS NEWS

Ireland to vote on Community act

BY HUGH CARNEGY IN DUBLIN

IRISH VOTERS will deliver their verdict today on the Single European Act, the attempt to give added impetus to economic and political co-operation in the European Community which has been held up for almost six months by Dublin's failure to ratify.

The Fianna Fail Government, the main opposition parties and the main farmers' and employers' organisations head the list of those campaigning for a majority in favour of the act in the referendum to end an anxious period in which Ireland's commitment to the EC appeared to waver.

Their campaigning took on a more confident note over the weekend following an opinion poll last week – the only poll of the referendum which indicated a 2-1 vote in favour.

But the poll showed nearly 40 per cent of voters undecided and the coalition of left-wing parties, trade unions, constitutionalists and church groups opposed to the act are hoping these may swing the vote their way. Their main objections are that the act would undermine Irish neutrality, weaken the economy and threaten the introduction of abortion and divorce.

The Act, of which the Irish Government was an enthusiastic advocate, should have come into effect in January. It has been held up while its constitutionality was tested in the Irish courts. The Supreme Court approved its economic provisions but rejected the foreign policy section, leading to the referendum.

The result is due tomorrow.

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Gonzalez in union talks

THE SPANISH Prime Minister, Mr Felipe Gonzalez, met the socialist leader of Spain's largest trade union yesterday seeking to heal divisions over wage policy in advance of elections next month, Reuter reports from Madrid.

After his two-hour meeting with Mr Gonzalez, Mr Nicolas Redondo, leader of the General Workers Union (UGT) said: "This was a family matter." It was the first meeting between the two men since last January when the UGT rejected a call to limit wage rises to around 5 per cent.

The talks took place amid continuing strikes over wages by doctors and miners. Eight policemen and five workers were injured during fresh clashes between police and workers opposing shipyard job cuts in the southern port of Puerto Real, according to union officials.

Danish shippers urge move on register

By Kevin Brown in London

DANISH shipowners stepped up pressure on the Government over the weekend for urgent intervention to end a wave of transfers from the Danish shipping register to foreign flags.

Mr Erik Behn, chairman of the Danish Shipowners' Association, said 21 ships of 82,925 tons deadweight had left the Danish register this year, reducing the fleet to 543 ships of 6.9m tons.

This is in line with dramatic reductions in the fleets of most of the traditional maritime nations. Hardest hit have been the UK and Norway, where proposals for an offshore register are passing through Parliament.

Mr Behn called for the establishment of a Danish international register which would allow shipowners to employ foreign crews at local rates of pay.

He also warned that legislation passing through the Danish Parliament which would bar ships from transporting weapons to nations at war would have serious consequences for the viability of the fleet.

India 'may help Tamils on Jaffna Peninsula'

BY JOHN ELLIOT IN COLOMBO

INDIA is believed to be warning Sri Lanka that it might consider taking positive steps to help the Tamil population on the Jaffna peninsula in the north of the island if Government troops kill a large number of civilians during their current offensive against Tamil extremists.

This message is believed to have been brought to Colombo by Mr Mani Dixit, India's High Commissioner, for delivery to Mr Junius Jayewardene, Sri Lanka's president. Mr Dixit was briefed personally last Friday by the Indian Prime Minister, Mr Rajiv Gandhi.

The message marks a widening of the gulf between the two countries over Sri Lanka's ethnic crisis. Several senior Sri Lankan Ministers are now openly backing a military rather than peaceful solution to the problem, with sharply increased army and airforce activity. This is despite India's continuing calls for peace talks on the Tamils' demands for devolution.

Last week India stopped exploratory meetings with Tamil groups it had called in New Delhi because it decided there was no immediate chance of starting negotiations.

The type of positive action towards the Jaffna Tamils which Mr Gandhi might be envisaging has not been specified. It could be taken by the central Indian Government, or by the South Indian State government of Tamil Nadu, whose 50m Tamil population has close links with the Sri Lankan Tamils. Large scale demonstrations are likely in Tamil Nadu if the Jaffna situation worsens.

India is being severely criticised by Sri Lanka for allowing the Tamil Nadu Government to give cheques worth over $3m to Tamil groups based in the Tamil Nadu state capital of Madras.

Yesterday, Sri Lanka's National Security Minister, Mr Lalith Athulathmudali, said he believed this money was being spent in Madras on arms. The Tamil Nadu Government, however, said the money had been collected voluntarily and had been given to Tamil relief organisations.

For several years, India has resisted calls to intervene militarily in Sri Lanka to protect Tamil civilians, and such intervention is not thought likely yet. But there are other indirect methods of giving help if the Sri Lankan army launches an all-out attack on Jaffna city and if forecasts of up to 11,000 casualties, mostly civilians, prove correct.

For the past week, the Sri Lankan forces have been making sorties from four of their camps on and near the Jaffna peninsular, including Jaffna Fort, trying to advance towards the city. It is not yet clear, however, whether the Government has decided eventually to attack the city or only to try to put it under siege.

Yesterday Mr Athulathmudali said infantry was advancing "a yard at a time."

Rains ravage Chinese province

BY DAVID DODWELL IN HONG KONG

THE WORST rains in 13 years have ravaged China's southern Guangdong province in recent days. Local radio stations reported 92 people killed, 400 injured, and more than 1m people displaced from their homes.

While more than 100,000 people have been mobilised to fight the floods in 72 cities in Guangdong, so firefighters in northern China continue to try to bring under control the worst forest fire recorded in the country's recent history. So far, at least 200 people have been killed by the fire, which threatens to spread to eastern Mongolia.

Worst hit by floods in Guangdong appear to be the densely populated counties of Haifeng and Lufeng in the east. These have been deluged by more than 40 inches of rain in recent days. Local radio reports say that almost 400,000 acres of farmland have been submerged, along with 15,000 acres of fish farms.

Schools and factories across Guangdong have been closed. At least 17 reservoirs have burst over their containing dams, and dozens of main road bridges have been washed away—including some on the trunk road that links Guangzhou (Canton) with Hong Kong. Flood embankments along various main rivers in the Pearl River delta have been breached. Canton radio also reported yesterday that some power stations have been damaged.

Supplies of fresh vegetables to Hong Kong—which relies on mainland China for more than 80 per cent of its fresh food—have been halted. The price of fresh food in the British colony has risen and an important source of foreign exchange for farmers in the province has been interrupted.

Officials in Guangzhou's meteorological office expect more rain, but a one-day respite yesterday removed an immediate risk of fresh flooding.

States face spending curb in Australia

By Chris Sherwell in Sydney

THE CANBERRA government yesterday ordered a A$1bn (£420m) cut in the borrowing limits of Australia's states and also secured their reluctant submission to a A$1bn reduction in the federal payments they receive.

The action came at the annual state Premiers' conference, and means that the state governments will have to trim spending and reduce services, almost certainly with implications for jobs.

The loan ceiling was cut from A$6.4bn to A$5.4bn.

Kawasaki line to cut jobs

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

KAWASAKI Kisen Kaisha, one of Japan's big six shipping companies, is planning to cut its sea-going workforce of 1,600 by 40 per cent, and sell 14 of its 41 ships.

The company, which trades as K Line, lost Y2.19bn (£9.3m) in 1985-86, and is predicting losses of Y6bn for 1986-87. The recovery plan forecasts continued operating loss in the current year, followed by a return to profit in 1989.

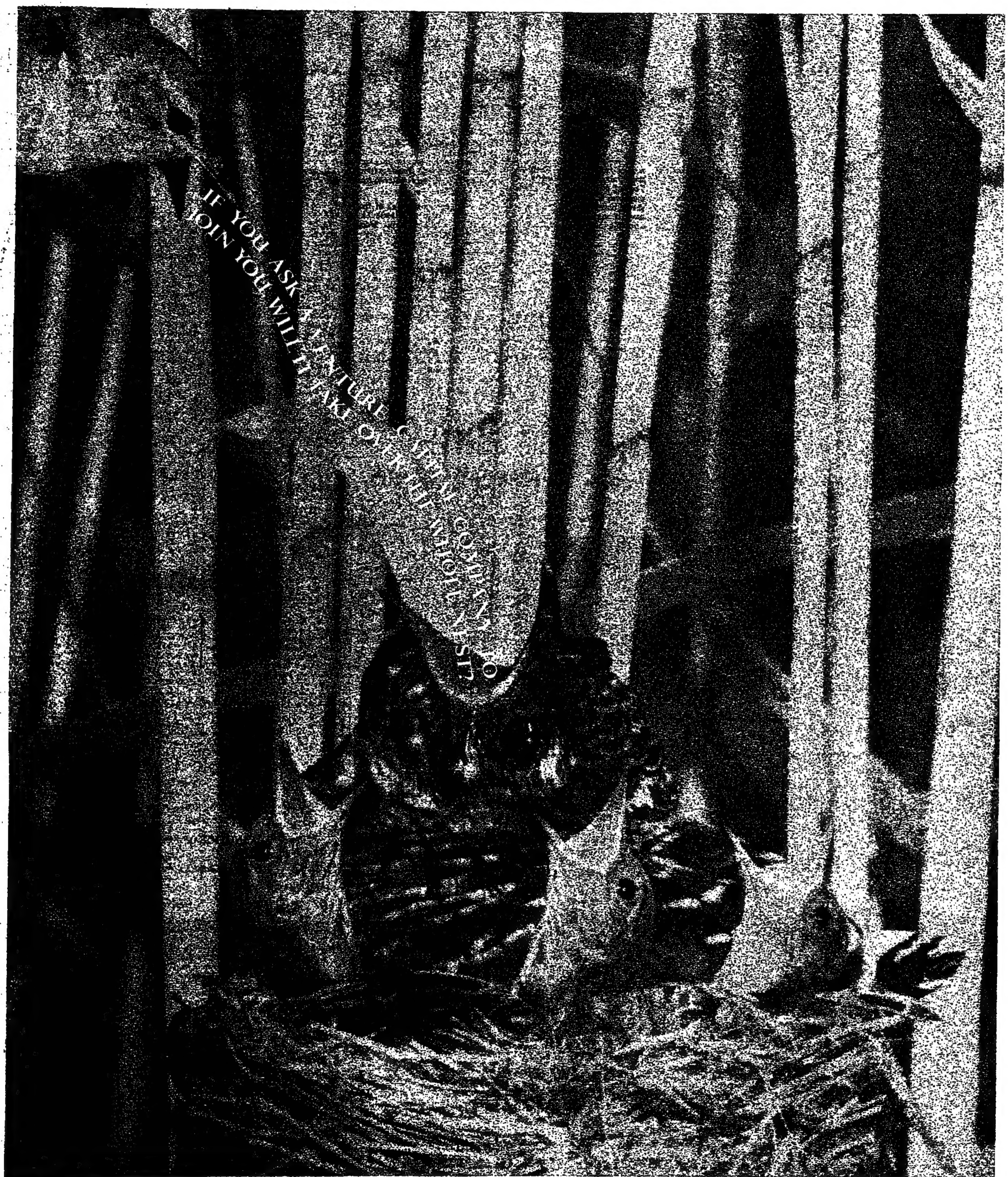
K Line is negotiating the workforce reductions with the All-Japan Seamen's Union, one of the few industry-wide trade unions in Japan.

Also, about 100 shore staff will be asked to take early retirement.

The drastic restructuring proposals reflect widespread difficulties in Japanese shipping, following the collapse of the tanker operator Sanko Line.

Five of the six major companies reported losses at the interim stage of the past financial year, and Japan Line was then forced to seek financial support.

Of the other majors, Nippon Yusen Kaisha has announced plans to cut its domestic flag fleet from 40 ships to 26; Yamashita-Shinnihon is seeking 700 voluntary redundancies; and Showa Line is seeking to sell several unprofitable ships.



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COMMERCIAL LAW REPORTS

Digest of cases reported in Easter Term

FROM APRIL 29 TO MAY 22 1987

Stevenson v Wishart (FT, April 29)

Periodic payments out of the capital of a trust fund were made to an elderly beneficiary to keep her in a nursing home during her terminal illness. The Revenue contended that these sums were income and assessed the trustees to tax under section 17 of the Finance Act 1973. In rejecting an appeal against a decision that these periodic payments were not taxable as income, the Court of Appeal stated that while the fact that the payments were made out of capital did not prevent their being income in the hands of the recipient, the fact that payments out of capital were periodic or for personal maintenance, or both, did not necessarily mean they were income. There was nothing which indicated that the payments were of an income nature except their recurrence, which was insufficient; the trustees were disposing of capital in exercise of a power over capital.

★

Butterworth and Co and Others v Ng Sui Nam; Longman Group Ltd and Another v Ng Sui Nam; Royal Academy of Music and Another v Ng Sui Nam (FT, May 1)

In rejecting an appeal against a decision that the plaintiff publishers were entitled to damages for breach of copyright under section 1 of the Copyright Act 1911 for works published in the UK before June 1 1957 and from January 27 1959 to the present (the "main decision"), the High Court of Singapore stated that the judge at first instance rightly construed the phrase "parts of His Majesty's dominions to which this Act extends" in section 1 as a geographical expression identifying all countries geographically falling within those words. "This Act" continued to mean "this 1911 Act" which remained as part of the law of Singapore. There was no principle or authority which supported the view that the attainment of independence changed the legislative source of inherited laws.

★

The River Rima (FT, May 5)

Under section 20 of the Supreme Court Act 1981 an action in rem could be founded on any "claim arising out of any agreement relating to the carriage of goods in a ship . . ." Section 20(2)(m) gave the court jurisdiction to hear any claim in "respect of goods or materials supplied to a ship for her operation or maintenance." The plaintiffs, arrested the River Rima in Liverpool for damages for conversion of containers leased to the shipowners (NNSL) and for failure to maintain those containers in good repair. In allowing NNSL's appeal, the Court of Appeal stated the present leasing agreement between the parties, while no doubt designed to enable NNSL to provide a service for cargo owners and to enable it to handle cargo more easily when it was the carrier, was not sufficiently directly connected with the operation of ships to hold that the containers were supplied for the purposes of the "operation of a ship" under section 20(2) (m).

★

The Food Corporation of India v Antclizo Shipping Corporation (FT, May 6)

In considering whether the shipowners had so acted that, by their conduct, objectively considered, they had made an offer to abandon an arbitration in a dispute which involved many other charters, the judge at first instance stated that it was unrealistic to answer by reference to silence and inactivity alone after 1975, because of the many contemporaneous and relevant dealings which had taken place between the parties. If those other dealings were taken into account, then the overall picture was one of uncertainty or muddle, and no clear or unequivocal statement of the owners' intention could be said to have emerged. In dismissing the charterers' appeal, the Court of Appeal stated that there was no flaw in the judge's conclusion. The owners were reluctant to litigate the same points in different arbitrations so it was reasonable that they awaited the authoritative decision in some reference without minding very much which reference it was.

★

Davies v Eli Lilly & Co and Others (FT, May 12)

In making general orders as to costs and the selection of lead plaintiffs for the forthcoming trial on liability in negligence against the manufacturers of the Opren drug, Mr Justice Hirst said that there were 1,500 plaintiffs with common issues on liability on all the actions. It was therefore necessary to select an appropriate group of suitably representative lead plaintiffs likely to be involved in 10 to 15 lead cases. In selecting the lead cases the court should be uninfluenced by the fact that some plaintiffs were legally-aided and others were not. The court also accepted the proposal for equal contributions severally from all plaintiffs, legally-aided and non-legally-aided, up to but not beyond their proportionate share (1/1,500) of costs not recoverable from the defendants—subject in the case of legally-aided plaintiffs that liability would be limited to a "reasonable amount" as stipulated in section 8(1)(e) of the Legal Aid Act 1971.

★

Crestar Ltd v Carr and Another (FT, May 19)

In construing a Joint Construction Tribunal Minor Works Building Contract, the Court of Appeal refused to accept the builder's submission that the final certificate could not be reopened by an arbitrator after the expiration of 14 days from the date of the issue of the final certificate. While condition 10(iii) of the contract stated that the sum specified in the final certificate should after 14 days become "a debt payable," the arbitration clause, in condition 15, of the contract contained no limitation in time. To hold, therefore, that after 14 days an incontestable and non-arbitrable debt arose would be quite contrary to the structure and intent of the contract, and the defendants were entitled to refer the issue to arbitration accordingly.

★

Maclaine Watson & Co Ltd v International Tin Council (FT, May 20)

The present application by Maclaine Watson & Co Ltd, a ring dealing member of the London Metal Exchange, was for appointment of a receiver by way of equitable execution over assets of the ITC consisting of such rights (if any) as it might have to be indemnified by or to demand contributions from its members. The appointment was sought so that the receiver would make the demands in the name of the ITC for the purposes of satisfying Maclaine's judgment of £6m against the ITC. In refusing the application, Mr Justice Millett held that Maclaine had failed to show any arguable case for contending that the ITC had a cause of action against its members which was not derived from the International Tin Agreement. It was rightly conceded that the court could not entertain a cause of action which was derived from an international treaty.

★

Janred Properties Ltd v Ente Nazionale per il Turismo (No 2) (FT, May 22)

The Italian Tourist Office (Enit) in London entered into an agreement with Janred Properties Ltd for the purchase of premises which Janred held on an underlease. The agreement was signed by Enit's London manager who handed over a postdated cheque for the deposit. Enit failed to complete and contended that the agreement was *ultra vires* because it failed to obtain the approval of the Minister of Tourism as required under its constitution. In rejecting Enit's appeal from a decision that it was estopped from denying that it was bound, the Court of Appeal stated that the agreement, without ministerial consent, was not a total nullity under Italian law but was capable of ratification. Enit's subsequent behaviour was such as to lead Janred to suppose, to its detriment, that completion would take place.

By Aviva Golden

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Labour's opponents step up salvoes on defence

BY MICHAEL CASSELL AND PETER RIDDELL

LABOUR's political opponents yesterday stepped up their attack on its non-nuclear defence strategy in the conviction that it remains one of the party's biggest potential vote-losers.

Strategists within the Labour camp introduced the argument over defence early in the campaign, hoping that it would quickly be overtaken by the debate on other policy areas where its proposals are proving more popular. But both the Tories and the Alliance yesterday served notice that they intend to keep the issue close to the top of the political agenda.

Mrs Margaret Thatcher, responding to apparent suggestions from Mr Neil Kinnock, the Labour leader, that he would prefer organised resistance to fighting an all-out nuclear war, said the public would not trust a party prepared to surrender its nuclear weapons and substitute "some kind of guerrilla band for them."

Speaking in the east Midlands, she said the security of Britain and of Nato had depended on an effective, nuclear deterrent but that Labour's approach appeared to involve "a policy of surrender." She added: "You cannot have guerrillas until you have been occupied."

Mr George Younger, the Defence Secretary, speaking in Ayr last night, said: "I don't know whether Mr Kinnock's freedom fighters would frighten the enemy, but by God they frighten me."

Mr Michael Hesiltine, the former Defence Secretary, added to the barrage of criticism, arguing that Labour's defence stand was "contemptuous and immoral" and meant Britain would become America's feeblest ally.

He said that Labour's proposals would threaten Nato stability and endanger Europe's commitment to its own defence. In terms of the future evolution of Europe, West Germany would draw closer to Franc, which would be left as the only nuclear power in Europe.

Mr Heseltine, who said that Labour defence plans spelled "risk, uncertainty and danger" went on to attack Alliance defence strategy, which he claimed was variable and changing. He maintained that the Alliance could not agree on defence policy and said the fundamental division was between Dr David Owen, the SDP leader, "who believes in the essence of a nuclear defence policy and the Liberals who will not agree to any specific policy of deterrents.

Taking on Dr Owen directly, he said the SDP leader was inconsistent in his view of Trident since he had suggested a French ballistic system in its place, which might be as expensive.

Mr Heseltine argued that "the opposition policies substitute rhetoric designed to defend Messrs Kinnock, Owen and Steel from the internal threats they face from within their own parties." Their policies, he added, were designed to fiht private, internal wars and not to prevent Britain becoming involved in a real war against a real aggressor.

Dr Owen yesterday also attacked Mr Kinnock's "guerrilla warfare" proposals, adding: "We wants Dad's army back and Captain Mainwaring's return to the colours. Or does his confidence stem from his own, extensive experience of fifth columnists in the Labour Party?"

Dr Owen said defence was one policy area where Labour's packaging could not hide a "left-wing lurch" which would transform the party in the next parliament. Mr Kinnock, he suggested, would not find it difficult "to revert to type and shed his ill-fitting mantle of moderation."

He gave a warning that unilateral disarmament would devastate Britain's relationship with the US and destroy the unity and coherence of Nato. Mr Kinnock, he claimed, was trying to discount reports that the US would take him at his word and promptly its nuclear bases from Britain. But he warned that, if Labour was voted into power, the Americans would quickly withdraw.

He added: "They will shake their head in amazement that we can voluntarily emasculate the British lion but as good democrats they will accept the verdict and move out of Britain, leaving us to look after ourselves as a toothless, shorn and neutered lion."

Tories leave farmers in 'state of paralysis'

Financial Times Reporter

THE CONSERVATIVES had left Britain's farms in crisis, Mr Brynmor John, Labour's agriculture spokesman, said yesterday.

He claimed that the Tories had spent eight years giving conflicting signals to farmers, putting them in a "state of grand indecision and paralysis."

Speaking to farmers at Welshpool, Powys, he said that Mr Michael Jopling, the Agriculture Minister, had failed to reform the Common Agricultural Policy and had given British farmers no sense of direction.

Rifkind warning on Scottish rates

MR MALCOLLM RIFKIND, the Scottish Secretary, claimed yesterday that the return of a Labour Government would lead to the doubling of rates in Scotland within the next two years.

"It would also mean the end of all protection for both the domestic ratepayer and the business ratepayer. It is a frightening prospect."

Alliance prison proposals 'laughable'

ALLIANCE proposals for solving prison overcrowding were "laughable," Mr Douglas Hurd, the Home Secretary, said yesterday.

Ashley Ashwood

Back to school: Mrs Thatcher with Mr John Higginbotham, headmaster of Leicester Grammar School

Grammar schools win Thatcher's top marks

By John Hunt

MRS THATCHER took the election battle into marginal territory in the East Midlands yesterday, where she rhapsodised over the virtues of independent grammar schools and made a fierce attack on Mr Neil Kinnock, the Labour leader, for his latest remarks on nuclear defence policy.

The onslaught on Mr Kinnock came at East Midlands Airport when she addressed a group of local Tory candidates, including Mrs Edwina Currie, junior Health Minister, who is again contesting Derbyshire South, one ofthe safer seats, where she has a majority of 8,613.

Mrs Thatcher urged the candidates to concentrate on defence policy over the next few days' campaigning. She criticised Mr Kinnock's implied suggestion that a guerrilla defence force might be set up in Britain to lead resistance against an occupying power, presumably the Soviet Union.

The Prime Minister then travelled to Leicester Grammar School, an independent fee-paying school in the Leicester South constituency of Mr Derek Spencer, who won it for the Tories at the last general election with a majority of seven over Labour —the lowest in the country.

There was a noisy demonstration outside by members of various hard-left minority parties with chants of "Tory scum!" But inside the school Mrs Thatcher was greeted by pupils who had been called in for the bank holiday and promised a day off in lieu later in the week.

Mrs Thatcher, before pulling aside a blue curtainto open a new wing of the school which charges £550 a term praised such grammar schools which, she said, represented all "that is best of our national life."

Noting that it was a church foundation school, she applauded the standards of discipline and morality inculcated by such institutions and made celar that others should follow this example.

She then launched into a counter-attack against Labour over its criticism of her recent remarks on education policy. Tory proposals would, she insisted, give a greater dgree of choice, particularly in inner city areas which were controlled by the Labour Party, including a large number of people of the extreme left.

Pupils and parents are trapped in these schools,"

Dobson says Tories may ration NHS care

BY LISA WOOD

MR FRANK DOBSON, Labour's health spokesman, warned yesterday that a future Conservative government might ration health care for the elderly and disabled.

Mr Dobson, speaking at a press conference in London, suggested that the Conservatives planned a syste mwhere health care was provided "not for those in the greatest need, but for those the Government thought useful."

He was referring to what health economists call "quality adjusted life years," which are used to judge the costs of treatment against the benefit in terms of additional years for the patient.

Such a system coul dhave some limited use, Mr Dobson said. Bu tit posed a dangerous threat to pensioners' rights to treatment in the context of remarks said to have been made by Mrs Edwina Currie, the junior Health Minister.

Mrs Currie last year was quoted in a newspaper as sympathising with a two-tier priority list, with waiting lists graded according to age so younger people would get priority.

Mr Dobson said: "We will see a health divide in which pensioners who landed on the Normandy beaches on D-Day would have to give up their places in the queue for a hip replacement operation to a merchant banker—always presuming the banker didn't go private."

He said he had no evidence that the Conservatives were proposing such a system, but many of Mrs Thatcher's advisers subscribed to such a viewpoint and they were people who would become increasingly influential.

Mr Dobson said the Tories knew the people of Britain feared for the future of the Nattional Health Service. "That is why they have kept under wraps the far right's idea of charges for visiting the doctor or for staying in hospital," he claimed.

The NHS, he said, was an area where useful new jobs could be created. "You feed tthe money in and the jobs come out at the other end."

Mr Michael Meacher, Labour's shadow Social Services Secretary, said in Newcastle that a Labour government would crack down on doctors who did not perform enough operations. Poor performers, he suggested, could be putting their NHS contracts at risk.

Dr David Owen, the SDP lieader, said patients should be able to "shop around" for hospital treatment to avoid high waiting lists and to force doctors to become more efficient.

Speaking in Glossop, Derbyshire, he elaborated on SDP policy to allow patients to seek treatments from another health authority, which would be paid for by the patient's own health authority. He said the financial incentive was then on that authority to cut its waiting list.

By comparison, he said, the Conservative tackled waiting lists by rewarding health authorities with large queues for treatment, at a cost of penalising those that had succeeded in lowering thetirs.

Lawson sees no case for ending CGT

By Peter Riddell, Political Editor

CAPITAL gains tax would not be abolished under a re-elected Conservative government, Mr Nigel Lawson, the Chancellor of the Exchequer, has made plain.

Mr Lawson said he was not persuaded of the case for the abolition of capital gains tax. This was because of the possibility of transfers between capital and income. Hence, there might be a loss of revenue from not only capital gains tax but also from income tax. This would occur if capital gains tax was abilshed and people sought to escape income tax by taking their profits in the form of caiptal.

Mr Lawson repeated his support for further reforms of the tax system without being specific.

On the issue of possible cuts in th higher rates of income tax, he said that these would have to be considered in the light of the US proposals to reduce its top marginal rate to 28 per cent. It is 60 per cent in Britain.

Mr Lawson said that the Government would have to see whether further changes were necessary in terms of business decisions and the possible "brain drain" of executives.

The Chancellor noted that, following the earlier reductions in the top marginal rates of tax, the higher income bands were paying a larger proportion of the total tax take than in 1979. Similarly, capital taxes were greater in real terms than in 1979.

Thatcher's silent old dependables

Malcolm Rutherford offers a personal view of a troubled week for the Tories

THE Conservative Party has been seeking to make a virtue out of its claim that it is beginning its election campaign late. Perhaps it will begin today when Mrs Thatcher makes a speech in Wales attacking what she calls Labour's iceberg manifesto — "iceberg" because it conceals so much more than it shows.

Perhaps not. For the Conservative performance so far has been a series of false starts. The gaffes have been, for the most part, little ones; yet they do add up. The party does not look entirely happy with itself: nor is it certain that each member of the Cabinet knows what the others are doing.

There was the disagreement, for example, over what the Tory manifesto proposals on education really mean. How far is there to be a return to direct grant schools, selection and fee-paying? The answers are still not clear. Mr Kenneth Baker the Education Secretary, has looked unusually uncomfortable on television, while Mrs Thatcher has produced responses of her own.

Something similar happened on unemployment over the weekend. Lord Young, the Employment Secretary, said on television on Sunday that he believed that it would continue to fall by around 25,000 a month. Chancellor Nigel Lawson declined to back him up with anything like such precision at yesterday's press conference.

The examples could be multiplied. Mr Norman Tebbit, the party chairman, always seems to be bickering with someone. Mrs Thatcher herself has retreated from saying that she was looking forward to a fourth term before the campaign began to the more modest proposal that she will review the position half-way through the third, if she gets it.

Two explanations may be offered for this faltering approach. The first is that the party leadership has not really decided whether it is campaigning on a radical manifesto or whether it is simply offering more of the same. The second is that some of the tensions between Mrs Thatcher and the rest of her team have still not worked themselves out.

The manifesto is radical on housing and education policies, but radical elsewhere only in the sense that over 10 years of Mrs Thatcher would add up to a pretty big change. The result is that ministers are none too sure which element to stress: the radical or what the almost forgotten Mr John Biffen would call the consolidtionist.

Ministers not too well up on the intricacies of housing, education and the local authorities are liable to find themselves in trouble—as well as some of those who should know better.

Mrs Thatcher dominates the Tory campaign, but insists that she has an array of ministers alongside her at the press conferences almost like a row of dummies. It is not so much that she is bossy; she behaves like a leading lady trying to get the best out of her cast.

Yet the stage is not fitted for that. It is overcrowded. They cannot contradict her; she can contradict them and sometimes almost does.

Yesterday she took a question away from Chancellor Lawson and gave it to Mr Nicholas Lyell, a junior minister at the Department of Health and Social Security who must now fancy his chances of promotion if she is re-elected.

Besides, some of the Tory stars are missing. Mr Michael Heseltine, out of the Cabinet, is away campaigning energetically on his own. Mr Peter Walker, still in the Cabinet when last heard of, is not given platform prominence. Mr Biffen appears to be in disgrace.

Even some of the old dependables seem to have been reduced to silence. There would be something to be said for an outline of British foreign policy by Sir Geoffrey Howe who, after all, has been Foreign Secretary for the last four years and has not a bad record. He is sometimes there, but rarely heard.

What it all looks like is a party still ruled by Mrs Thatcher. There may be another danger: she is preaching too much to the converted and relying too much on stock themes like defence.

President de Gaulle got away with that, but not for ever. The Tory campaign so far has been less effective than it should have been.

THE ISSUES: ECONOMIC POLICY

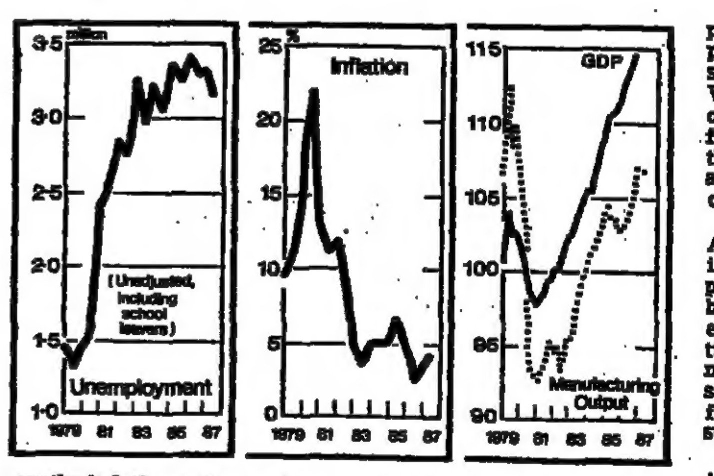
Approaches share cautious theme

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

● *The Conservative Government will continue to put the conquest of inflation as our first objective. We will not be content until we have stable prices, with inflation eradicated altogether.*

● *We (Labour) will reduce unemployment by 1m in two years as the first instalment in beating mass unemployment.*

● *The Alliance is prepared to take the difficult steps necessary to create jobs and control inflation at the same time.*



THOSE looking for radicalism in the economic platforms of the three main parties will be disappointed. But there are still plenty of contrasts.

The central election promise of the Conservatives is more of the same — the eventual elimination of inflation, a further five years of steady economic growth, another round of tax cuts, more privatisation, still greater deregulation.

For Labour, the key objective remains as in 1983, but the ambitions have been trimmed. Though a target of taking 1m off the jobless register within two years is hardly modest, this time the party sets a firm ceiling on the available resources. The commitment to renationalisation has been softened; there is a new emphasis on prudence.

As in many other areas, the Alliance manifesto promises to combine "the best" of the other parties' policies. Unemployment will be cut—by 1m over three years—but inflation will be controlled by taking sterling into the European Monetary System and by a tax-based incomes policy.

The one facet of policy on which all parties appear to agree is that, whoever wins on June 11, there can be no dash for much faster economic growth. A deteriorating international economic outlook, the experience of the Mitterrand Government in the early 1980s and the recent move into deficit on the current account mean that the emphasis is on caution rather than radicalism.

The starting points of the parties' policies, however, could not be further apart.

For Mr Nigel Lawson, the Chancellor of the Exchequer, Britain's economy "is stronger and sounder than at any time since the war." This year will mark the seventh successive year of steady economic growth; inflation is low and set to fall further; unemployment has turned down.

Living standards are rising strongly, last year's controlled fall in the value of the pound has triggered a revival in manufacturing industry and Britain has jumped to near the top of the international league in terms of productivity growth.

The Conservative strategy is thus to "build on success"—to push ahead with cuts in the basic rate of tax and, probably, the top rates, to improve further the supply side of the economy with curbs on union power and more privatisation and to nurture the "enterprise culture" that has at last emerged.

The question the Conservatives were putting to the British people, Mr Lawson said yesterday, was: "Are you prepared to throw all that away on a single day?"

It is hard to dispute the buoyant short-term outlook, but the opposition parties' assessment of the underlying state of the economy paints a very different picture. Their case is that Mr Lawson has indeed engineered a temporary boom, but at the expense of the long-term health of the economy.

The cost of the consumer spending surge has been sluggish investment at home and more imports from Britain's rivals. North Sea oil revenues have been squandered as a £4bn surplus on manufactured trade has been translated into an £8bn deficit. Above all, the Conservative claim of economic success is belied by an unemployment total of over 3m and its refusal to forecast by how much is will fall in the next parliament.

For Labour, the answer is a two-pronged strategy. The first priority is to get unemployment down to 2m with a series of job-creation measures ranging from investment in housing, hospitals and schools and cuts in employers' national insurance contributions.

The second thrust would focus on the revitalisation of manufacturing industry, with the creation of an Industrial Investments Bank funded from a capital repatriations scheme and the establishment of a ministry of science and technology.

In parallel, a Labour government would seek to prevent the additional spending from feeding directly through to higher inflation through rigorous control of public sector pay and voluntary restraint in the public sector.

Mr Roy Hattersley, the shadow Chancellor, insists that the overall cost of its short-term programme is £6bn annually for the job-creation measures and £3.5bn for its anti-poverty programme. All but £3bn of that would be financed through reversing the 2p cut in income tax announced in the Budget and by raising an extra £3.5bn in taxes from the richest 5 per cent.

That estimate is greeted with derision by the Conservatives, who have costed Labour's programme at £35bn. In one of his more colourful phrases, Mr Lawson insisted yesterday that the result would thus be "inflation going through the roof again and the pound going down the plughole."

The Alliance has emphasised that it sees much worth preserving in the Conservative legacy, particularly in the area of privatisation. In one area it has stolen Mr Lawson's clothes. While the Chancellor has given only a vague commitment to full membership of the EMS, the Alliance indicates that such a step would be central to its control of inflation.

The impact on prices of the Alliance plans for a targeted increase in investment and output will be limited, if necessary, by a counter-inflation tax on employers who conceded inflationary pay awards. The Government's tax cuts will not necessarily be reversed, but any future scope will be used instead for public spending.

A combination of more spending on construction and investment, a crash programme of retraining and extra jobs in health and social services would cut the dole queues by 1m in three years.

Assessing the likely impact on the economy of the three platforms is fraught with difficulties, but a study to be published later this week by the London Business School gives some clues.

It suggests that the Conservatives would get the rate of inflation down to below 3 per cent by 1992 and keep the current account in roubh balance, but they would not be able to maintain anything like the recent rate of decline in unemployment. Even assuming that the basic rate of income tax is cut to 25p in 1988, some 2.7m people would be unemployed in five years' time.

Labour's commitment to reduce the dole queues by 1m is seen as plausible, but over three or four years rather than two—and at the expense of a sizable current account deficit in later years and a temporary upturn in inflation to 7 per cent.

By 1992, public spending would be £16bn higher than under the Conservatives, but much of the impact on public borrowing would be offset by the increased tax revenues resulting from higher employment and faster growth.

The Alliance plans would also achieve their central aim of reducing unemployment to 2m, but again at the expense of higher inflation and a deteriorating current account. The addition to public spending in five years' time would be just under £15bn.

UK NEWS – THE GENERAL ELECTION

Labour and Alliance keep up attack on education

BY FIONA THOMPSON

BOTH Labour and the Alliance refused to let the education issue drop yesterday despite a weekend of backtracking by the Conservatives.

The Alliance attacked Tory proposals to allow schools to opt out of local authority control as a step backwards and a recipe for bureaucratic shambles.

Mr Bryan Gould, Labour's campaign co-ordinator, insisted in spite of denials over the past two days, that a re-elected Tory government might introduce fees in state schools which opted out.

The Government was in a considerable muddle over its education proposals, he said at Labour's morning press conference yesterday.

"The Prime Minister is rather like a tabby cat that has got her claws into a piece of knitting. Every time she pulls a claw out another piece unravels.

"Despite the efforts made by the Education Secretary, Mr Kenneth Baker, and others to damp down the Prime Minister's revelation that she does contemplate the charging of fees in state schools, the Prime Minister cannot conceal that this is implicit in her view of what is going to happen to our state education system," he said. Mr Paddy Ashdown, the Alliance education spokesman, said the plans were "a deliberate act of demolition of our education system which we have spent 40 years carefully painfully, putting together."

They would produce divided schools for a divided nation, schools for the chosen and schools for the trapped.

The proposals "were not radical, but destructive," he said. They would take British national education back half a century and more, back to the days of selection and inequality.

Dr David Owen, SDP leader whose three children are in state schools, claimed that this Government simply didn't care about the quality of educattion provided in the state system.

"They don't send their kids there. They don't live among people that do.

"I sit day by day, hour by hour, getting angry at what is going on in the education system. I consider each night should I use the income I have to send my children privately?"

The Alliance issued a 10-point plan for raising standards in education. It includes a requirement on all schools to publish indicators showing progress in academic results related to intake and social conditions.

Schools will be asked to set targets for improvement and special inspections will be started at all schools which regularly fall below a certain level in progress achieved.

Peer who offers stark choices and belies his political calling

Charles Leadbeater on the career and priorities of Lord Young

Lord Young's practical political philosophy can be summed up succinctly.

People prefer to, and should, stand on their own feet and take responsibility for themselves. For those with drive, ability and resources, government merely creates the conditions for them to enjoy independence.

But government has an obligation to help the less fortunate. Success or failure here should be measured by how far the state hands them responsibility for their lives. The state should foster choice within public sector housing and education rather than creating dependency on state handouts.

The message is delivered with sun-tanned confidence, which verges on serenity when contrasted to the mayhem of Conservative Party Central Office moving into battle. Lord Young, sitting in a bare office, says he is helping out with the general campaign as he has no constituency to fight.

He will advise the Prime Minister but he has not been moved in to smooth over Mr Norman Tebbit's rougher edges. "We have known one another a long time and get on very well," he says.

In a country which is still suspicious of politicians, Lord Young has a tremendous asset: he is able to appear not to be a politician at all.

Whereas colleagues and counterparts bear the marks of arduous climbs up the greasy pole, Lord Young arrived at the top after a career in industry. He is pleased, almost surprised, at being in a position of power. It seems more than an attractive ploy designed to identify him as an ordinary industrialist who ended up as Employment Secretary almost by accident.

His immensely practical view that politics is about getting things done lends him a detachment from the messy process of reconciling different interests and soothing constituencies. His very practicality seems to float him above politics.

The Conservatives are presenting the election as a watershed. They are asking the public to reject emphatically the drab world of social democracy, which is infested by residual beliefs in the power of the overshadowing state, run by planners intent on lumping individuals into anonymous collectives.

Ahead lies the world of enterprise, which is as much a way for individuals to exercise control over their lives as it is an economic necessity. Lord Young says the vision will be deepened and broadened in the third term.

"The first parliament was about whether the country was governable. In the second the task was to get the economy right. In the third we can start using that economic strength to tackle social issues," he says.

He highlights the manifesto commitments to give council tenants the power to choose another landlord if the council is performing poorly; to allow greater choice within the state education system and to give three fresh training guarantees to groups of unemployed workers.

While he says the Government has always acted for the whole of society, he recognises the party must make it clear that it is not creating a world designed only for go-getters. "I want a balanced society—with wealth creation and wealth consumption going hand in hand."

If Europe had the dynamism of the American economy we would have millions more jobs, but America is too cruel a society, he says. Nevertheless they do have a whole tier of low-paid jobs which do not exist in this country because of the tax and benefit system.

However, the Conservatives cannot be seen to urge, nor do they want, a low-wage economy. Lord Young wants a high-wage, high-productivity economy. Does not that conflict with the Government's previous insistence that real wage moderation was the route to lower unemployment?

"I have never said that, but I cannot speak for my colleagues" he remarks.

Lord Young believes Britain can return to full employment, although he considers that in the post-war era the country succumbed to a myth that unemployment could be kept to 3 per cent. But he is also impressed by the writings of William Beveridge, the founder of the welfare state, who, he says, thought 8 per cent unemployment was a natural rate.

Can a government which says it has little control over the real economy of jobs and output really claim credit for growth which has been produced by strenuous efforts on the shopfloor and in boardrooms? "No one else would have created the conditions for growth. Would the CBI have done it? They were the biggest load of wets I have ever seen."

The comment raises another question over Lord Young's approach to politics and the campaign. His absolute belief in the rightness of his approach, combined with his background as a business executive used to getting his own way, produces an apparent intolerance for argument. His charm masks stark choices: you are either right or wrong; one of us or not one of us—there is no third way.

Christopher Dunkley on the television campaigns

Parties box differently

THIS TIME, they tell us, this time it is going to be the television election. To which everyone over the age of 17 replies: "So what's new?"

Television presenters have been claiming that television exerts the most crucial influence in elections for 20 or 30 years. But does anybody seriously imagine that any election result since 1945 would actually have been different if television had not been with us?

Television's main effects are reinforcement (of existing attitudes), revelation (of true character, whether the politician's or the viewer's) and, unhappily, the imposition of a certain cosmetic uniformity.

Time was when the Labour Party was represented by a nice old chap in a donkey jacket and wonky glasses who lived in Hampstead and looked like a vegetarian. The Conservatives used to be led by a bald earl who wore half-moon spectacles and looked as though he was perpetually longing to get back to the grouse moors. The Liberals had at their head an eccentric who sported a double-breasted waistcoat and an outmoded trilby.

Today the parties still stand for the interests so clearly symbolised by those characters but, thanks to the politicians' belief that the television image is crucial, all parties dress up their representatives in identical merchant banker outfits.

The only difference is that the Tories buy their dark chalk-stripe suits in Savile Row while the Socialists get theirs from Marks and Sparks. The Alliance presumably buys alternately from Savile Row and M and S but loudly refuses to discuss the subject, claiming to be above such petty matters.

This supercilious attitude of standing on a plane superior to everyone else, removed from anything so vulgar as party politics, is proving deeply irritating. Watching the first week of the carnival pass by on the small screen, this has been something of a surprise, and perhaps the most important aspect of the television campaign so far.

In the past Britain's centre party has gained by distancing itself from its competitors: "We hate politicians too! A plague on both their houses! We're on your side," they said to the viewers, and very endearing it seemed.

But it only worked so long as it was clear that segment really was as remote from the centre of political power as the rest of us. Now that it is represented by such archetypal political bruisers as David Owen, and given equal time and facilities with the others, their pose simply looks toffee-nosed. There is not much charm any longer in the claim that the "Yah-boo" politics of Labour and Conservatives is out of date and that the smart thing to do is face both ways at once and say "Yah-boo" twice.

Furthermore, whereas the centre party used to gain in the three-way Party Election Broadcast fight by appearing neither as odiously slick as the Conservatives nor as pitiably inept as the Socialists, but to be marked instead by quiet mon sense, they have blown common sense, they have blown it this time.

Judging from a long weekend spent with Rosie Barnes in France last month (with dozens of others, we were guests of London Weekend TV) Mrs Barnes is a nice middle-class lady with moderate views and bags of common sense. Sure enough that was how she started to come across in last week's PEB for the Alliance.

However, even with a KTOL on her throughout (a soft-focus lens known in the business by the initial letters of the phrase "Kind To Old Ladies") the programme became desperately tedious as the director went on and on shooting from the same oblique angle as Mrs B talked and talked to an unseen and unheard interviewer. By comparison the PEBs from both Conservative and Labour parties were masterpieces of the commercial maker's art.

This was scarcely surprising in the case of the Saatchi & Saatchi party, which predictably enough managed to work in the Union Jack, the Battle of Britain, and the "Jupiter" movement from Holst's "Planets" suite ("I vow to thee my country") ending with the Winter of Discontent.

But the first Labour broadcast was an eye-opener. The party which has poured such contempt on the Tories for the presidential style of their campaigns came up themselves with a panegyric to Neil Kinnock, the like of which has never been seen in this country before.

The chief ingredients were Brahms, Glenys and roses, but we also had large chunks of the British landscape, and heard the leader's praises sung by his aunt and uncle, not to mention Barbara Castle. Admittedly the best that Denis Healey could offer was "I think he's very like Gorbachev in the Soviet Union: he's got a nice smile but steel teeth," but if a man like Healey is told he is not allowed to talk about anything but The Leader, what can you expect?

At the end of the first week of the television campaign the Conservatives have opted for Winston Churchill's clothes, Labour has stolen the Conservatives' clothes, and the Alliance —which used to parade in a mixture of hand-me-downs— appears to be running around half-naked looking anxiously for a new tailor.

Perhaps it is still all to play for . . . or perhaps the reported comment from Ken Livingstone (and who is keeping him off the screen?) is closer to the mark: "If Mrs Thatcher is found in bed with a camel three days before polling, then the Tories will lose."

Tom Lynch on the fight for survival looming ahead of the Trade and Industry Secretary

Channon camp stirred from seaside slumber

THE traditional Bank Holiday traffic from east London to the Essex seaside resorts was joined this weekend by a new element —a stream of journalists on their way to take the temperature in the Southend West constituency, where a Cabinet minister's political survival is in question.

Mr Paul Channon, the Trade and Industry Secretary, meets such callers with a courtesy often absent from those defending marginal seats. He says the speculation about his possible demise helps his case, since any Tory voter tempted to feel complacent is being reminded constantly of the importance of coming to the aid of the party.

At first sight, his 8,000 vote majority over the Liberals may seem comfortable enough, especially given the poor Alliance showing in the opinion polls. However, his 54 per cent of the vote in 1983 represents a drop of five points and 3,000 votes on 1979, while the Liberals advanced from 25 per cent to 38 per cent. Since then the Alliance has all but annihilated the Tories in the constituency's seats to take effective control of Southend Council.

The Conservative Party has woken from its slumber and found the Alliance breathing down its neck. A full-time agent has been appointed after a gap of five years and Mr Channon says previously inactive party members have been mobilised to counter the Alliance threat.

The Liberal campaign has been conducted at almost election intensity over several years, using all the techniques of the computer age to target sections of voters and focusing on local issues to the extent that threatened closure of one hospital unit has emerged as an important issue in the current battle.

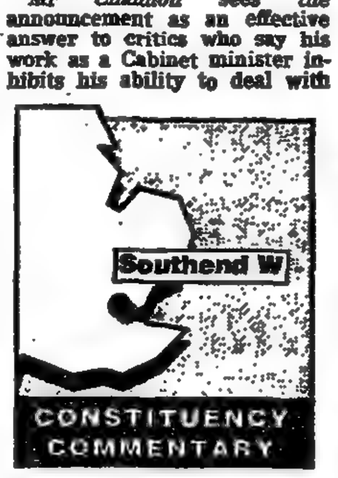
A campaign to save the cancer treatment centre at Southend Hospital culminated in a 94,000-signature petition and a ruling last week from Mr Norman Fowler, the Social Services Secretary, of a review of the guidelines on which the closure proposals were based.

This eleventh-hour announcement is being treated with open cynicism by Mr Gavin Grant, the 31-year-old Liberal challenger, who claims to have initiated the campaign. If the guidelines were wrong, he asks, why did it take ministers so long to say so?

Votes in the balance: Paul Channon faces a strong challenge in South West

Roger Taylor

Mr Channon sees the announcement as an effective answer to critics who say his work as a Cabinet minister inhibits his ability to deal with local issues. He sees the issue as one on which the parties are united and where he has been able to make a special contribution as a minister.



Mr Channon hopes that another local issue will help him. There are four grammar schools in the constituency — two for each sex — and he sees the Alliance's opposition to selective education and the Tory manifesto proposals to allow its extension as a vote-winner. "A vote for the Conservatives is a vote for retaining our education system."

The education question is one area where Mr Grant deviates from the party line — he believes in keeping selective schools, though he would like to see them reduced in size.

His views are seen with some scepticism by the Labour candidate, Ms Angela Smith, the 28-year old political officer of the League against Cruel Sports, who accuses the Liberals of being afraid to acknowledge their opposition to grammar schools.

She, like Mr Channon, says offers of help are easier to find this time. The greater effectiveness of the Labour campaign and especially the image of Mr Neil Kinnock are seen as strengths which have raised morale within the party and made Labour voters less apologetic than they were during the gaffes and embarrassments of 1983.

Her aim is to get as many votes as possible and she sees the 1983 figure of 8 per cent as the core Labour vote, which is unlikely to be squeezed any further.

1983 result in Southend West: P. Channon (C) 26,360; G Grant (Lib/All) 18,327; J. Nisbet (Lab) 3,675. C Majority 8,033. Turnout 71.7 per cent.

The generally comfortable appearance of the constituency, says Ms Smith, belies some genuine hardship. Impressive-looking houses are often in multi-occupation. Unemployment, at 14 per cent, is four points above the regional total and waiting lists for operations are long.

As head of marketing and membership for the Council for the Protection of Rural England and a former campaign director of the Liberal Party, Mr Grant is no stranger to fighting his corner. He is dismissive about Ms Smith's view of a solid Labour vote and thinks half of it can be squeezed into voting tactically for him. He has targeted three other sections of the community: pensioners, the young and new arrivals.

Mr Channon and his supporters know they have a fight on their hands, though he insists that the Alliance would have to convince a large number of Tory waverers in order to secure victory. It remains to be seen whether the Alliance's four target groups contain enough dissatisfied voters to take the extraordinary step of depriving a Cabinet minister of his seat in the Commons. A more convincing showing in the opinion polls is likely to be necessary to convince the doubters.

UK NEWS

Thatcher set to attack Labour's 'hidden policies'

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

MRS MARGARET Thatcher, Prime Minister, yesterday rejected suggestions that the Conservatives had lost the initiative in the election campaign and gave notice that they will today step up their attack against the Labour Party.

Shortly after her declaration, Mr Neil Kinnock, the Labour leader, confidently predicted for the first time that his party was heading for a working majority in the next parliament. He declined to forecast the size of Labour's win but said the party was in line for a firm election victory.

Mr Bryan Gould, Labour's campaign co-ordinator, said: "We are now warned, and we should be flattered, that the big guns will be turned on us. We will have to bear that with all the equanimity and fortitude we can summon."

Social Democratic Party Liberal Alliance leaders yesterday continued to brush off their disappointing performance in the opinion polls and repeated their claims that they expect to benefit from a squeeze on support for Labour, which could not win on June 11.

Mr David Steel, the Liberal leader, said: "We are not saying the polls are wrong; we say opinion moves."

Dr David Owen, the SDP leader, predicted that the Tory lead in the polls would, later in the campaign, come down below 37 per cent, when it would "start to get interesting."

Amid signs that the Tories, after a good week for Labour, are about to put their own campaign into top gear, Mrs Thatcher is today expected to use a rally at Newport in south Wales to return to what, at the outset of the campaign, she dubbed Labour's "iceberg manifesto."

In a wave of campaign speeches around the country, Mrs Thatcher and her colleagues will today be highlighting a range of Labour proposals which have been previously adopted as party policy but which were omitted from the election document.

Tory strategists believe that, despite Labour's positive start, it remains vulnerable on a wide range of issues, from defence and public spending to left-wing dominated local authorities.

Mrs Thatcher said yesterday: "We shall have a go at the others; we have to because we believe their policies would be absolutely disastrous for our country, for its reputation and for the fundamental liberties for which it stands."

She stressed that the Tories would be fighting on positive policies but that they had to show why their opponents could not produce the prosperity, the property-owning democracy or a defence policy fit to defend the nation.

While Labour yesterday concentrated on attacking the Government's record on the health service and the Alliance concentrated on education, the Tories made the economy the major issue.

Mr Nigel Lawson, the Chancellor of the Exchequer, said that no government had entered an election campaign with a stronger economy behind it and the British electorate had to consider whether it was prepared to throw away eight years of economic achievement in a single day.

If Labour was to be re-elected, he claimed, it would mean collapse and a return to the "asylum of the International Monetary Fund within 18 months to two years."

Mr Lawson, who restated his party's determination to reduce the basic rate of income tax to 25p, said that there was no commitment to lower the top rates of income tax but they would be examined in the light of the potential "brain drain" effect of lower rates of tax overseas, particularly in the United States.

Manufacturers see substantial improvement in export orders

BY JANET BUSH

BRITISH manufacturing industry saw a substantial improvement in export orders and domestic business in the first three months of 1987, continuing the trend of late last year, and many businesses are now expecting to take on new workers, according to the latest quarterly survey by Britain's chambers of commerce.

The Association of British Chambers of Commerce said, however, that the pound's rise this year was steadily eroding the competitive gains resulting from last year's substantial depreciation and urged the Government to cut interest rates by another 2 percentage points – "and soon."

Miss Lynn Howarth, the association's external relations director, said: "We have been through eight years of hell. This is the first time we have seen economic trends take off in this way in a long, long time. If sterling is kept down and our exporters can keep up their share of the world market, there is no reason why these trends should not continue."

The survey, of more than 3,500 companies employing more than 74,000 people, shows over a fifth of manufacturing companies expecting to increase their workforce in the next few months, double the number of the last survey.

The association said the survey gave "grounds for cautious optimism that the unemployment tide really has started to turn."

It said the results were particularly heartening as they tended to suggest the strong economic recovery, which had previously been confined mainly to the southern English counties, was now spreading to the traditional manufacturing heartlands.

There had even been an up-turn in the West Midlands, the only region not to have experienced a significant recovery in the association's fourth-quarter 1986 survey, although the results show little change in the prospects of non-manufacturing sectors and slight ...ll in job prospects.

The association estimated that a...t half of last year's competitive ga...s from sterling's substantial depr...tion had already been lost.

...re than two thirds of those surv...ed cited high British interest rate...s the key factor inhibiting busin...s expansion.

The association called for the Bank ...England and the Treasury to con...ue cutting base lending rates, a ...cessity if industry's confidence ... performance at home and abro... was not be to dented by a sharp r... in the pound's value.

The sur... also threw up another problem f...g British industry – skill shorta...s. There was a general increase in ...e percentage of companies repo...g difficulties in recruiting skil... people in the first three month... the year. The most severely affe... regions were the East and We...Midlands, Merseyside and the s...-east of England.

US budget deficit is blamed for limiting world economic growth

BY JANET BUSH

THE HUGE imbalance caused by the US budget and external deficits have become the major constraint on world growth, overshadowing the favourable effects of lower oil prices, according to the latest world economic outlook by Lloyds Bank.

The bank says economic growth in industrial nations is likely to fall to 2.2 per cent this year, even less than 2.3 per cent in 1986, and is likely to remain at this level on average for the next five years.

Domestic US policy will tend to depress demand as the Administration tackles the budget deficit and probably raises interest rates to stop a dollar crash. At the same time, Japan and West Germany are unlikely to provide the missing stimulus to the world economy.

"The gradual small relaxations of Japanese and German monetary policy that are taking place under US pressure may do little more than brake the dollar's fall but will not stimulate investment in either country while export prospects for their major industries are so bleak," Lloyds says.

Lloyds says the US current account may worsen to over \$150bn this year and next before coming down to \$135bn in 1991. At the same time, Japanese and West German surpluses are set to continue at around \$80bn and \$35bn this year and next, falling to \$65bn and \$27bn by 1991.

The developing countries are forecast to grow faster than industrialised nations at 3.6 per cent a year, due mainly to continued rapid growth in newly industrialising countries in the Far East.

However, as the industrialised economies will provide only moderate market growth for developing country exports, the developing nations will in many cases have to rely on domestic stimulus to raise living standards.

They will "as ever be subject to balance of payments constraints and the shortage of international finance to relieve them," Lloyds says.

The industrialised growth rate of 2.2 per cent is well below the ... per cent figure generally thought to be the minimum needed to enable ...er developed countries to service their burden of debt, Lloyds says.

It forecasts an upturn in inflation to 2.7 per cent this year in the industrial countries compared with 2.1 per cent in 1986 and then to rise further to 4 per cent in 1991. Asia is expected to have low inflation while the inflation rates of Latin America's major debtors are again increasing into three-figure annual rates.

Coca-Cola and Schweppes withdraw union recognition

BY PHILIP BASSETT, LABOUR EDITOR

COCA-COLA and Schweppes, the joint venture soft drinks company, has stripped its senior managers of union recognition while Cadbury Schweppes, the food and drinks group, has withdrawn collective bargaining from its senior managers.

The two moves are among a very small number of examples of companies successfully challenging traditional union representation. Although some de-recognition moves, such as the Governments's ban on trade union s at its GCHQ intelligence communications centre, have provoked opposition and public notice, others in the private sector are happening with relatively little publicity or opposition.

In response to the two moves, the Cadbury Schweppes Senior Managers' Association, a registered independent trade union, has balloted its 850 members and secured a 6-1 vote supporting the union. The association has now requested a meeting with Sir Adrian Cadbury, Cadbury's chairman.

Coca-Cola and Schweppes has made the more radical move. Cadbury Schweppes at the end of last year formed the joint company with Coca-Cola, the world's largest soft drinks company, to handle all their respective soft drinks brands in the UK.

Coca-Cola does not recognise trade unions in the US, nor at its bottling and distribution centre in the predominantly non-union town of Milton Keynes, north of London.

Accordingly, once the joint venture company was in operation, the company gave the CSSMA notice of its intention to terminate its recognition agreement with the union, which has about 200 members in the company.

The joint company felt that it would be anomalous for some senior managers in the company to be organised in a trade union while others were not. Salaries will now be negotiated individually, based on performance.

In Cadbury Schweppes, senior figures in the company believed that the negotiating role of the CSSMA had become largely redundant. With the internal re-organisation following the Coca-Cola deal, the company decided to re-order its collective bargaining arrangements.

Accordingly, the company told the CSSMA that it would not negotiate a pay review in 1988. In advance of that, though, it withdrew from 1987's negotiations and imposed a pay settlement of 4.5 per cent, plus increments of 2.5 or 8 per cent, depending on performance.

In a letter to members, Mr Ron Brown, CSSMA acting president, says the company has taken away "unilaterally the negotiating rights of the CSSMA without warning and almost certainly illegally." Referring to Coca-Cola – Schweppes, he says the position there is "even worse, where there has been a loss of recognition."

He makes clear that, if the ballot, which the association won, rejected the statement that its members wished it to continue to be recognised by the company, then the union would have no choice but to wind itself up.

Following the vote, senior figures in the company are expected to discuss the position this week, and the company – which says its relations with the CSSMA have always been benign – hopes that a solution satifactory to all sides can be reached.

Rolls-Royce workers show enthusiasm for shares offers

BY PHILIP BASSETT, LABOUR EDITOR

EMPLOYEES at Rolls-Royce, the newly privatised aero-engine company, have at least matched or even bettered the take-up of shares offered to them by the company in the privatisation.

The company, which is expected to announce to its employees this week precise details of how many shares have been taken up, is likely to feel that a high take-up level will have a positive impact on employee relations.

About 8 per cent of the total available shares have gone to employees of the company although Rolls-Royce acknowledges that some employees have sold at least some of their shares for a quick profit as the share price soared in the first few days of the start of trading last week.

The company even had to issue to its managers an internal note banning employees from leaving its factories at Derby, in the Midlands, during work time to make share transactions.

Shares were offered to employees in five separate ways – a free share offer to the value of about £70, plus £2 worth of shares for each year's service; a matching offer, under which the company matched two for one each bought share up to a total value of about £300; a 10 per cent discount offer for up to £2,000 worth of shares; a priority offer over the general public of up to £10,000 worth of shares; and a sharesave scheme.

About 95 per cent of employees are thought to have taken up the free share offer, but probably the most significant take-up is in the sharesave scheme.

Under this, the price of some shares is frozen to allow employees to save up for them with the Abbey National building society.

Savings are made through pay deductions, and at the end of the chosen savings period of five or seven years a tax-free bonus of 14 or 28 months' payments is added. Employees can then choose whether to buy the shares at the original agreed price or take the saved money and bonus.

Previous schemes of this sort have attracted a take-up of about 35 per cent of employees.

London pays off surplus dockers

By Kevin Brown

SURPLUS labour has been eliminated from the Port of London for the first time since the containerisation of cargo began in the mid-1960s.

The annual report of the Port of London Authority, published yesterday, shows that the workforce fell by 813 to 2,153 last year as a result of a bigger-than-expected response to a voluntary severance scheme.

Employment in the Port of London peaked at about 35,000 in the mid-1950s, when the dockers handled about 60m tons of loose cargo a year.

The reduced workforce handled 48.3m tons of cargo last year, an increase of 1.8m tons, largely as a result of higher imports of crude oil and aggregates.

The redundancy programme was largely financed by the Government, under a scheme which has subsequently been frozen by the European Commission, which is investigating its legality under the competition provisions of the Treaty of Rome.

New Barclays chief braces for 'biggest banking revolution'

BY DAVID LASCELLES, BANKING EDITOR

Mr John Quinton: "You have to press ahead."

FOR ONLY the second time in its 200-year history, Barclays Bank has broken with tradition and chosen a chairman who does not belong to one of its founding families. He is Mr John Quinton who takes over today at the age of 62 from Sir Timothy Beven.

The son of a clearing banker and lifelong Barclays man, Mr Quinton is careful not to overdo the importance of the choice. Previous "family" chairmen all went through the mill and were "genuine executives trained as bankers from the start," he says. Even so, he expects Barclays staff to be gratified by the sight of "one of themselves having reached the top."

Mr Quinton could hardly fit better the role of clearing bank chief. He has the reassuring, sociable manner of a high street bank manager and is willing to speak his mind. But he takes over at a time when very heavy demands will be made of him. Not only is Barclays widely viewed as having slipped from its traditional position of Britain's number one bank, but the environment in which it operates is undergoing bewilderingly rapid change.

"We are in the middle of the biggest bank revolution," he said in his comfortably furnished office in Barclays' Lombard Street headquarters. "Historians of banking will look back on the 1980s and say that was when the big changes took place. We're slap in the middle of it. My successors will probably say their life is relatively easy."

Electronic means of payment, the rapid growth of new forms of financing, the scope and ferocity of competition – these are the forces that Mr Quinton expects to have to contend with. For that, he needs to make Barclays "as quick on its feet as possible. You have to press ahead. You will occasionally make mistakes, but you have to have a hit list for successes."

Mr Quinton does not expect to introduce any big or rapid changes. As an existing member of the top management team (he was deputy chairman), he was involved in many of the strategic decisions taken by Barclays in the past few years

But there may be changes of style. He intends to take a higher public profile than Sir Timothy and drive home the message that higher sales and lower costs are where the profits come from.

He admits that Barclays' loss of first place to NatWest last year was a blow although his aim is to get back ahead of his rival in terms of profits rather than balance sheet size. To achieve this "we must treat the bank more as a business and give it a greater sales orientation," he says. This is not something that banks have traditionally been good at. He recalls his father saying: "I never go out and see a customer. They always come in to see me."

He believes much more can be made of Barclays' strong established position on the domestic market to cross-sell its wide range of products, trustee services, insurance broking, and so on, although bankers will also have to learn to keep retailers' hours.

Internationally, he wants Barclays to have a more tightly integrated network with strong computer backing, able to deliver services quickly around the world.

One issue he will not have to deal with is that of South Africa. Barclays' withdrawal from that country last year frees him from the constant critical battering suffered by his predecessor and enables him to concentrate on developing the business.

A key piece in the jigsaw is Barclays de Zoete Wedd (BZW), the new investment banking arm created in last year's Big Bang deregulation. Mr Quinton hotly denies – as rumoured in the City of London – that he voted against Barclays' proposed acquisition of brokers de Zoete & Bevan, and the jobbing firm Wedd Durlacher, which went to create BZW. He agrees that the purchases were "high risk." But he adds: "If you want the rewards, you take the high risks."

"BZW is an essential part of our armoury in dealing with corporate customers and multinationals. A bank has to be able to provide a full range of services." He maintains that BZW has rapidly established a good reputation in the securities and capital markets and is making money. He intends that it shall become "a global investment with resources and capacity as great as any in the UK."

Although Mr Quinton is only two-and-a-half years away from Barclays' retirement age of 65, he has an informal agreement with the board to stay in the post for at least five years. This month he also becomes chairman of the British Olympic Appeal, which is aiming to raise £2m towards the cost of sending the British team to the 1988 games in Seoul.

Travel groups protest over new debit card

BY CLIVE WOLMAN

MANY LEADING travel agents, airlines and hotel, tour and ferry operators have set up a working party to examine electronic payment methods as part of a protest against the charging structure that Barclays Bank is to impose as part of its new debit card arrangements.

In recent weeks, leading retailers have refused to accept Barclays' direct debit Connect card which is designed as a substitute for the cheque book method of payment. Barclays plans to charge them a percentage of the value of all transactions undertaken with the card whereas, for cheque usage by their customers, retailers are charged a small fixed fee per transaction.

The Association of British Travel Agents said it was setting up a working party jointly with the Travel Industry Systems Standards Group in a "move aimed at fighting the rising costs of automated banking."

The association believes Barclays' move upsets the negotiations between itself and a consortium of banks over the best method of implementing and sharing out the costs of a co-ordinated Eftpos (electronic funds transfer at point of sale) system.

Mr Jack Smith, association chairman, said: "We believe that Barclays' action will cause confusion and hinder the progress of the intiave as a whole."

The working party will examine the value and volume of transactions and the economics of Eftpos and present its recommendations to the banking consortium.

Consumer group seeks protection for debtors

BY NICK GARNETT

THE SYSTEM of debt recovery in Britain should distinguish between people who refuse to pay their debts even though they have the means to pay and those too poor to pay, the National Consumer Council says in a report published today.

Such a system should protect debtors from harassment and undue hardship, try to sort out debt problems before they are out of control and achieve a fair balance between the claims of competing creditors, the council says in its paper, Enforcement of Debt.

The paper is the council's response to proposals for reform of debt-recovering legal procedures proposed in a review of civil justice. The review was begun some years ago by the Lord Chancellor.

The council's proposals for changing the system of debt recovery comes at a time of increased lending.

The British now buy a third of all clothes, shoes, funiture, cars and household goods on credit compared with a quarter little more than 10 years ago.

In proposing changes, the council says the present system has many flaws. Among these were the court forms and legal terminology which dissuaded many who had a valid defence against a claim by a creditor from putting it before the courts.

The council says county courts should deal with all consumer debts and magistrates courts should lose their jurisdiction over rates arrears cases. Imprisonment for non-payment of rates should be abolished.

Fuel and water boards should not cut off supplies for non payment of bills without a county court order, and debtors should receive better protection against harassment through a new collection practices act.

Dealers in gilt market beat gloomy predictions

BY DAVID LASCELLES, BANKING EDITOR

THE MAJORITY of the 27 primary dealers in the UK gilt-edged market, claimed to be operating positively more than six months after the Big Bang deregulation of the City of London.

This result, which is confirmed by observations made by the Bank of England, is contrary to widespread predictions that intense competition in the restyled gilts market would cause some houses to suffer heavy losses and withdraw.

The Bank of England, which receives daily reports and quarterly profit-and-loss accounts from all dealers, says that most houses are showing small gains from their trading. Although there have also been losses, the diversity of the dealers experience have now been wide, and none of them are considering withdrawing.

The encouraging performance is attributed by dealers largely to the strength of the gilts market for much of this year. This has helped stimulate much higher levels of training turnover and has enabled dealers to take profitable positions in the market.

But other factors have included unusually strong foreign demands for gilts, the absence of serious "back office" problems and the smooth functioning of the Central Gilts Office which acts as a clearing house for the market.

Trading figures suggest that the dealers are dividing into three categories. About eight houses have emerged as market leaders with a share of institutional turnover ranging between 6 and 9 per cent. The majority of the dealers fall into the second category with between 3 and 6 per cent. At the small end of the market, a handful of houses, have about 1 per cent.

The market leaders consist entirely of brokers or jobbers who had a large gilt-edged business before Big Bang and now form part of larger bank owned conglomerates.

Foreign-owned dealers have achieved a sizable share of the market. Five out of the top eight belong to foreign banks, but UK houses dominate among the medium-size and smaller dealers.

The conclusion drawn by the Bank of England at this stage is that the results are positive and that the 27 dealers have largely gone about their business with caution, but the strength of the market means it has not yet been fully tested.

John Lewis pre-tax profits rise 28%

BY NICK GARNETT

THE JOHN LEWIS Partnership, the department store and supermarket group, raised pre-tax profits last year by 28 per cent to £105.5m.

Total sales for the year to January 31 increased by £199m to £1.57bn. This represented a rise of 16 per cent, but 2 percentage points of this improvement resulted from comparing 53 weeks of trade in 1986-87 with 52 weeks in the previous financial year.

Prices of goods sold in the group's supermarkets rose by 3 per cent and those in its department stores by 1.5 per cent.

Taking the effect of these and the extra trading week into account department store sales rose by £80m (11 per cent) and supermarket sales by £55m (8.5 per cent).

The group spent £63m on land, buildings, fixtures and vehicles during the year. This includes three new Waitrose supermarket branches.

Kevin Brown sums up the first stage of hearings into the Zeebrugge capsizing

Avoidable errors that led to ferry disaster

FOR the survivors of the Herald of Free Enterprise, the public inquiry into the disaster has been a daily reminder of the horror of that night in March when the unthinkable happened and nearly 200 people lost their lives.

In the solemn surroundings of Church House, in London, the administrative headquarters of the Church of England, the survivors have described in detail the few minutes when the ferry capsized only yards outside the safety of Zeebrugge harbour.

There have been tales of courage and of cowardice, of bravery and of bungling. But most of all there has been a pervasive sense of unfairness and injustice; as if everyone who was there is still asking why it had to happen to him.

"It was such a normal day," said Captain David Lewry, the master on the night of the disaster. As if to prove it, the nightmare explanations of survival in the freezing, blacked-out hull are preceded by glimpses of shift changes, tea breaks, restaurant menus, and all the everyday details of normality at work.

The tone was set on the very first day by Mr David Steel, the barrister representing Mr John Moore, the Transport Secretary, and the man from whom the other seven teams of barristers take their cue.

Mr Steel, who has been fully briefed on the results of the Transport Department's preliminary inquiry, has led the questioning of witnesses with the firmness of a man who knows where he is going and what he will find when he gets there.

He began by confirming that the disaster was caused by a massive inrush of seawater into the car deck of the ship through its open bow doors.

For those who found it hard to comprehend how a modern passenger ship could go to sea with its doors open (a bit like trying to land a Jumbo jet without wheels) he had a simple, if shocking, answer: "The diseases of a sloppy system and sloppy procedures infected not just those on board ship but well into the body corporate of Townsend Car Ferries."

Townsend, a subsidiary of Peninsular and Oriental Steam Navigation, subsequently took much of the heat out of the inquiry by publicly accepting the blame and admitting that the accident was caused by "avoidable human error both afloat and ashore."

As the inquiry has progressed it has become clear that whatever the recommendations made by Mr Justice Sheen, the chief culprit will have been shown to be the lack of proper management systems to make sure that simple but crucial shipboard tasks were carried out.

The inquiry has already established that Townsend's ships operated a negative reporting system, under which the master assumed that all was well unless he was informed otherwise.

> 'Diseases of a sloppy system and sloppy procedures infected not just those on board ship'

On top of this, conflicting regulations issued to the crew required some key personnel, including Mr Leslie Sabie, the chief officer, to be in two places at the same time.

Partly for this reason, there was a misunderstanding about which officer was in charge of loading, and no-one checked that the bow doors had been shut.

Mr Marc Stanley, the assistant bosum with nominal responsibility for closing the doors, was asleep in his cabin, believing he had been stood down from duty.

The inquiry has also heard evidence that Townsend's management resisted requests from seagoing masters for bridge warning lights which would have indicated that the doors were not closed.

One manager replied, in one of an astonishing series of memos: "Do they need an indicator to tell them whether the deck storekeeper is awake and sober, my goodness?"

Another memo said: "Nice, but don't we already pay someone?"

The author of the memos, Mr Jeffrey Develin, a director of Townsend, said indicator lights had been fitted to the company's ships within a few days of the disaster at a cost of about £400–£500 a vessel. None of the ferries had to be taken out of service for the work to be done.

Some of the most shocking evidence has concerned the company's methods of establishing the numbers of passengers sailing in its ships. These appear to have been rudimentary, and often wrong.

At least seven masters were said to have become suspicious of the estimates supplied by shore staff and found after a head count that there were hundreds of extra passengers.

This problem had painful consequences after the Herald incident, when Townsend was unable to supply accurate details of passengers on board the ship when it capsized.

The company has since apologised for the "enormous distress" caused to people unable to discover whether relatives had sailed on the ship and has announced that it is seeking ways of recording the figures more accurately.

It has also emerged that draught readings were not usually taken – which meant that there was no check on whether the ship was sailing on an even keel.

The inquiry will go on, in the weeks of sittings to come, to hear evidence from technical experts on the cause of the rapid capsize once water had entered the ship.

Mr Justice Sheen will be aided in evaluating this by the results of a re-run of the Herald's last journey carried out under controlled conditions by its sister ship, Pride of Free Enterprise.

Many questions remain to be ansered. They include:

- Are roll-on roll-off ferries of the type operating around Britain's coasts inherently unsafe?
- Why were the crew of Herald apparently untrained to deal with a rapid capsize?
- Did commercial pressures on the operator lead to skimping on safety, either in design or operation?
- What changes in design or procedures should be recommended to make sure such a tragedy never happens again?

The inquiry has moved recently to the less imposing surroundings of the Official Referee's Court, in London's Kingsway – perhaps a more suitable arena for the detailed technical argument that is to come.

But for those who attended the first weeks of the inquiry at Church House, the Zeebrugge inquiry will be for ever associated with the matter-of-fact restraint with which the survivors painted a picture of disaster.

Lloyd's costs rise by 30% to £100m

BY NICK BUNKER

THE COST of running Lloyd's of London soared by 30 per cent to reach nearly £100m last year, because of rising staff numbers, the burden of implementing new regulations and the expense of moving to the insurance market's new headquarters building in Lime Street, London.

The figures are published today in the annual report of the Council of Lloyd's, the market's ruling body. They show the biggest percentage increase for at least five years in spending by the Corporation of Lloyd's, the market's central secretariat.

They also come at a time when Lloyd's is facing a further increase in regulatory costs as it begins making the 70 reforms recommended in January by Sir Patrick Neill's report on the market's standards of investor protection.

Mr Peter Miller, the market's chairman, writes that "considerable resources" are now being devoted to implementing the Neill findings.

Total spending by the corporation came to £98.1m in 1986, up from £75.3m in 1985 and £73.2m in 1984. The corporation's main functions include running the Lloyd's building and the Lloyd's Policy Signing Office in Kent, as well as regulating Lloyd's underwriters and brokers.

Its staff costs rose by £7.5m, largely reflecting a 7 per cent increase in numbers to 2,151, much of it due to recruitment by the corporation's regulatory department and the hiring of more professionally qualified staff.

Premises costs rose by £5.8m because of the move to the new building, opened by the Queen last November.

Despite accelerating costs, the corporation reported a net surplus of £12.8m on its revenue account. This was mainly because subscription income from underwriting members of Lloyd's rose by 28 per cent, due to recruitment of 2,500 new members and increased underwriting by another 9,000 existing members.

But the prolonged recession in the world shipping market badly hit Lloyd's of London Press, publisher of the Lloyd's List, the marine trade paper. Pre-tax profits fell 24 per cent to £850,000, because of a slump in advertising revenue and subscriptions.

Freight forwarders seek compensation

BY LYNTON McLAIN

TWELVE FREIGHT forwarders at Heathrow, Gatwick and Manchester airports have issued a writ against Travicom, the joint British Airways/British Caledonian Airways computer company.

Travicom operates the UKAS computerised airfreight clearance system at the airports and was used by the freight forwarders.

"The system failed in November within hours of going live," the group of forwarders said yesterday, in announcing a claim for £504,000 from Travicom. This represents the costs so far identified by the 12 forwarders for their enforced switch back to the earlier British Telecom ACP80 computer system.

The forwarders said: "Collapse of UKAS caused havoc in the airfreight community and long delays in Customs clearance. Many freight forwarders incurred heavy overtime wage bills and other costs in extricating their customers' cargo from the melee."

The 12 freight forwarders said the offer by Travicom in February of a compensation fund of £500,000 to be shared by about 400 UKAS users was "totally inadequate."

The freight forwarders forming the Travicom Action Group seeking compensation are: Air Action International; Brantford International; Circle Freight International; Fourdale Export Sevices; Immediate Transportation; Ivey International; LEP International; MAT Airfreight; Meadows Airfreight; Medtrans Forwarding; Mitchell Cotts and Universal Consolidators.

British Airways owns 82 per cent of Travicom, with British Caledonian owning the remainder. The company had a turnover of £8.55m and a pre-tax profit of £1.45m in the 12 months to the end of March last year.

Welsh centre opens for semiconductor research

BY ANTHONY MORETON, WELSH CORRESPONDENT

TWO colleges in the University of Wales have joined forces to set up a semiconductor and micro-electronics centre.

University College, Cardiff, and the University of Wales Institute of Science and Technology (UWIST) which are both based in the Welsh capital, have opened the centre which already has won more than £2m in grants for research projects and contract work for the main British electronics concerns.

The centre has received £445,000 from the Welsh Development Agency as well as support from Cardiff City Council and the South and Mid Glamorgan county councils.

Behind the centre lies the initiative of two men, Professor Robin Williams, head of physics at University College, and Professor Vernon Morgan, professor of microelectronics at UWIST. They have become its joint directors.

They believe the centre will strengthen research into the new materials that will form the next generation of microchips.

"We like to think of the centre not only as generating industry and employment but as being a small industry in itself," said Prof Williams at the opening.

The centre is also intended to act as a catalyst in attracting industry to Wales and in the generation of its own spin-off industries.

UK NEWS

Clive Wolman on the secondary market in loans to Third World countries

Putting a price on debt write-offs

THE implicit admission by Citicorp, the largest US bank, that the chances of retrieving the full value of its Third World debts are remote has revived the debate, particularly among accountancy firms in the US, as to how far other banks should go in writing off their debts.

Most auditors are resisting the view that the prices at which Third World loans are traded between banks and other companies in secondary markets represent the best estimates of their repayment prospects.

According to Mr John Tattersall, a banking specialist at accountants Coopers & Lybrand, secondary market values are not appropriate if a bank has no plans to sell any of its loans but intends to hold them to maturity. He says the secondary market is too small and vulnerable to distortions to be a reliable indicator of values.

However, Salomon Brothers, one of the leading market-makers in Third World debt, says that the market has become highly liquid and efficient. About 250 banks and 50 non-financial companies are trading in the market, the turnover in which is expected to reach $10bn to $15bn this year. Thus, it says, market prices represent a more reliable consensus view than the subjective opinions of top banking executives, which auditors currently accept.

A further attraction of "marketing to market" the debts is that the banks would no longer have to realise book losses if they sold some of their debts to diversify their risks and to secure immediate tax relief. In a move to circumvent the tax authorities' reluctance to grant such relief, Japanese banks recently sold $500m of their Mexican debt at a 42 per cent discount to face value (the secondary market price) to a Cayman Islands company jointly owned by 28 of them.

Tax consultants in London believe a similar device could be used to overcome the obstacles set up by the Inland Revenue.

In the secondary market last week, loans to Third World countries were traded at discounts to their face values of between 27 per cent in the case of Venezuela to as much as 91 per cent in the case of Bolivia. The weighted average discount for all sovereign debt to re-scheduling countries is probably close to that for Brazilian debt, about 37 per cent.

As a result of Citicorp's move last Tuesday, it is now allowing for a write-off of about 31 per cent of its debt to re-scheduling countries, which is comfortably close to the 37 per cent figure.

However, London banking analysts believe that the leading UK banks have made provisions for only as little as 10 per cent of the value of their loans to re-scheduling countries in the case of Midland and Standard Chartered and 19 per cent in the case of National Westminster (see table).

These figures assume that all the bank's general provisions against bad debts, even for domestic debts, can be applied exclusively to their sovereign debt.

If Midland, Lloyds and Standard Chartered were forced to mark down their loans to their market values, analysts estimate that their profits would be wiped out for more than a year. In addition, they would lose so much equity that some form of recapitalisation would become necessary to satisfy Bank of England prudential requirements.

The Bank said on Friday that it did not wish to enter a debate in the press about whether a tougher writing-down policy was necessary.

UK BANKS: THE EFFECTS OF WRITING DOWN THIRD WORLD SOVEREIGN DEBT TO SECONDARY MARKET VALUES

	Debt exposure £bn				Covered by existing provisions	Cost, extra marketing-to-market provisions £bn	Resulting loss of equity
	ALC	BZW	P&D	Avge			
Barclays	3.1	2.6	2.4	2.7	16%	0.57	14%
Lloyds	3.5	3.1	–	3.3	13%	0.79	29%
Midland	4.4	3.9	4.2	4.2	9.5%	1.14	57%
NatWest	2.5	2.0	2.6	2.4	19%	0.46	10%
Std. Chrtd.	2.6	–	–	2.6	10%	0.70	54%

(Citicorp after $3bn write-off: 31.5%)

Debt exposure estimates are of the banking analysts of ALC (Alexanders Laing and Cruickshank)) BZW (Barclays de Zoete Wedd) and P&D (Phillips and Drew). ALC figures include South Africa. Secondary market prices provided by Salomon Brothers. Estimates of equity (shareholders' funds) from December 31 1986 balance sheets.

Pension body launches publicity campaign

BY BARRY RILEY

THE NATIONAL Association of Pension Funds (NAPF) is to launch a £300,000 publicity campaign to counter the threat that large numbers of occupation scheme members will opt for personal pensions when they gain the right to choose next April.

But the NAPF, which represents 1,300 of the biggest pension schemes of companies and other large organisations, has not been able to contemplate a major advertising campaign aimed directly at the 10m or more scheme members.

Mr Charles Woodward, the association's new chairman, told the annual conference at the weekend that the budget for a more serious advertising campaign would have been £5m–£7m, outside the scope of the NAPF, even if a special levy was charged on members.

Accordingly, the association will rely heavily on member pension schemes to promote the publicity campaign's "look-before-you-leap" message, with the aid of leaflets and a 10-minute video starring comedian Lenny Henry.

Mr Woodward warned members at the Birmingham conference that they would be operating in a quite new environment from next year, facing direct competition for the first time.

"Given our strong conviction that in the majority of cases our pension packages are the superior product, this is a challenge we can meet," he said.

But pension schemes needed to be more flexible. "The design of many schemes can be improved so as to more effectively appeal to our different types of members," he said.

The publicity programme faces the challenge that the NAPF's own opinion survey has revealed that schemes have a fairly dismal performance in communicating with their members.

According to a specially commissioned Mori poll, 53 per cent of pension scheme members know little or nothing about their scheme. Almost a quarter said they had never received any infomation about pensions. Only 24 per cent said they had received leaflets or booklets apart from information given on first joining the scheme.

Many pension scheme executives at Birmingham were apprehensive at the prospect of needing to compete with the slick marketing, aggressive salesmen and large advertising budgets of the personal pensions industry.

The battle comes as the NAPF's membership is declining.

North Sea oil drilling activity picks up

By Lucy Kellaway

DRILLING activity in the North Sea is picking up from the lows reached earlier this year as higher oil prices boost confidence and the summer season begins.

In the first three weeks of May, 10 wells were started, according to stockbrockers Wood Mackenzie. If activity continues at the same level until the end of the month, it will be as busy as March last year, before the sharp cuts announced by the oil industry had been put into effect.

Even though activity remains well below the levels of 1984 and 1985, there are signs that the trend is upwards.

There are now 18 rigs at work drilling wells in the North Sea, five more than in March when there were fewer working rigs than at any time since 1979.

Maintenance work in the North Sea is expected to be particularly heavy this year and could result in a loss of 430,000 barrels of oil a day (b/d) in June.

Wood Mackenzie estimates that average June production could fall below 2m b/d for the first time in several years, nearly 600,000 barrels less than average production last year.

The main work to be carried out is on the pipeline from the Forties field, the largest oil field in the North Sea. The Forties field and the nearby fields which use the line will be closed down for 18 days while the work is being completed.

Output may be further depressed next month as companies postpone production until July, the start of the next taxable period.

THE UK ECONOMY

A new way to beat the bogeyman

Donald Franklin explains why EMS entry is not the answer to curbing inflation

WITH MONETARY targets debunked, even the Prime Minister seems likely to accept full entry into the European Monetary System as the only credible policy for further reducing inflation should she win the election. Certainly, monetary policy over recent months has been dominated by a desire to hold sterling stable against the D-Mark, possibly in preparation for post-electoral EMS entry.

But joining the EMS to reduce UK inflation to West German levels would be wrong-headed for two reasons: it is the wrong mechanism to reduce inflation, and 4 per cent inflation does not need reducing.

Almost every International Monetary Fund adjustment programme contains a devaluation of the exchange rate to a competitive level. And not without good reason, for countless less developed countries have sought to reduce inflation and maintain living standards by fixing their nominal exchange rates, only to endure deteriorating trade balances and accumulating debt until a crisis is precipitated. Yet among industrialised countries there is a new consensus that the way to control inflation, in the absence of usable monetary targets, is to peg the exchange rate against a low inflation economy like West Germany's.

Advocates of EMS entry for the UK apparently see it as a counter-inflationary substitute for monetary policy. The Chancellor has suggested that entry into the EMS would entail a commitment to maintain the nominal exchange rate at the entry level. If wage settlements continued to be inflationary these would not be ratified by sterling depreciation. But such a policy could well prove as ill-judged in the UK as it has in developing countries.

The chart shows that UK producer price inflation remains 4 percentage points above the EC average and six points above that in West Germany. There is still some oil price effect in these figures, and the differential may contract somewhat. But even if the underlying inflation rate in Germany is 1 per cent while that in the UK is 4 per cent, fixing the sterling/D-Mark nominal exchange rate would yield a 3 per cent per annum appreciation of the real exchange rate.

The balance of payments would deteriorate. Interest rates would have to be raised in support of sterling, sufficiently to reduce domestic demand and import growth.

Equilibrium might be reached if the depression of the UK economy resulted in a deceleration in UK cost inflation to German levels.

On past experience the deceleration in cost inflation is more likely to be achieved through productivity increases and employment cuts than through a fall in the level of wage settlements. Even to achieve a three percentage point decline in cost inflation, manufacturing industry would need to shed an extra 150,000 jobs each year.

UK inflation would then have been reduced. But the permanent cost is that UK growth would have to be kept below that in Germany—for there is nothing in theory or in the experience of the past few years to suggest that if UK growth were to re-accelerate, inflation would not also re-accelerate. It is notable that since 1983 while UK growth has been fast enough to generate increased employment, UK inflation has been rising relative to that in the European Community.

The key question is why it matters that UK cost inflation is a few percentage points above that in Germany, so long *as it is not accelerating.*

Inflation has become the bogeyman of the 1980s: countries from Sweden to Spain are practising deflation or overvaluing their exchange rates in the merciless pursuit of very low inflation.

The alleged economic costs of inflation are rarely stated, but generally fall into three categories: market inefficiency resulting from lack of transparency of relative price movements; wasted shoe leather as individuals are forced to make more frequent trips to the bank to replenish real cash reserves; and deception of the populace by government as the latter services its debt to the former at nominal interest rates.

But at low, stable and well publicised rates of inflation, in an increasingly cashless society, and with the advent of index-linked savings vehicles, all these costs lose their bite.

If it is conceded that 4 per cent inflation is benign, or at least that reduction from this level is not worth any sacrifices in terms of growth or employment, it is nevertheless true that acceleration from this level is to be avoided.

Exchange rate policy can be used to achieve this, but not through adherence to a fixed nominal exchange rate target. *Rather the nominal exchange* rate should be adjusted precisely to reflect the current domestic inflation rate (if this is acceptable, or the target inflation rate if it is not), as well as that of other countries.

Thus if UK inflation is stable at 4 per cent and Germany's at 1 per cent, the nominal £/DM rate *should* be eased *downwards* at 3 per cent per annum. If the Bundesbank prefers to reduce German inflation to 1 per cent, rather than the UK economy being forced to deflate to compensate (the recent French experience), the £/DM rate should depreciate by 5 per cent per annum instead.

A single cross rate is inadequate, of course, but it should not be beyond the wit of the Bank of England to create a target rate for the trade-weighted exchange rate that reflected both stable domestic inflation and the different inflation rates of our diverse competitors.

If the UK continued to inflate at 4 per cent per annum, the UK real exchange rate would be held constant — a far more important objective than stability of the nominal £/DM exchange rate. An acceleration in UK inflation, on the other hand, would lead to real exchange rate appreciation and a policy response to restrain demand growth back to a level consistent with stable inflation.

Such an exchange rate policy ought, like the EMS, to be made explicit, with target bands determined by current and expected domestic and foreign inflation. The stability and predictability of the EMS could thus be achieved: a country with the UK's favourable credit rating has no need of the extra intervention resources made available by EMS membership.

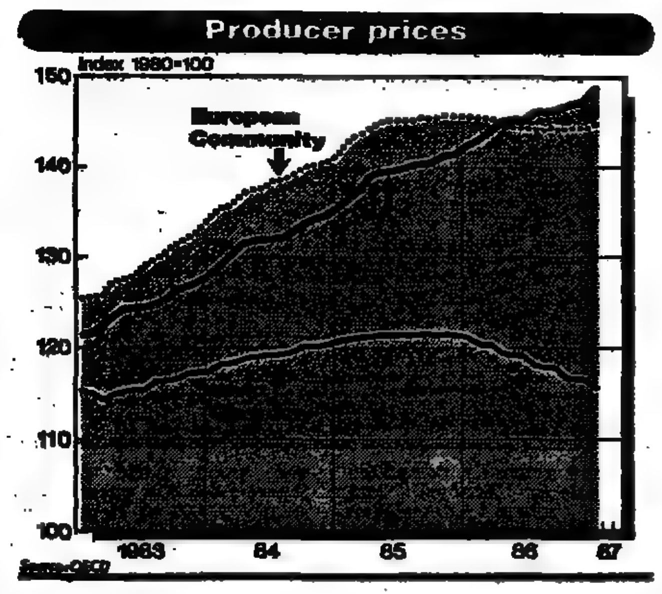
A constant-real-exchange-rate-with-constant-inflation policy as described would provide an excellent background to the pursuit of the microeconomic policies which might — in contrast to the fixed nominal exchange rate policy—genuinely improve the UK's performance.

If, for instance, increased labour mobility reduced wage costs and UK costs began to decelerate, the 4 per cent inflation norm would result in a real depreciation in the real exchange rate. The UK trade balance would improve, and the economy could be stimulated.

The benefits of improvements in the working of the economy would then automatically be translated into employment gains rather than being frittered away on the dubious objective of yet lower inflation.

The author is chief economist at Schroders, the financial services group.

Producer prices



Source: OECD

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26th May, 1987

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26th May, 1987

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of which U.S. $181,500,000 is being issued as the initial tranche

Notice is hereby given that the interest payable on the Interest Payment Date, June 22, 1987, for the period December 22, 1986, to June 22, 1987, against Coupon No. 4 in respect of U.S.$10,000 nominal of the Notes will be U.S.$340.19 and in respect of U.S.$250,000 nominal of the Notes will be U.S.$8,504.75.

May 26, 1987, London
By: Citibank, N.A. (CSSI Dept), Agent Bank CITIBANK

U.S. $600,000,000

Commonwealth of Australia

Floating Rate Notes Due 1998

Interest Rate	7 13/16% per annum
Interest Period	26th May 1987 27th November 1987
Interest Amount due 27th November 1987	
per U.S.$ 10,000 Note	U.S.$ 401.48
per U.S.$500,000 Note	U.S.$20,073.78

Credit Suisse First Boston Limited
Agent Bank

Deutsche Siedlungs- und Landesrentenbank Bonn/Berlin DSL Bank

DM 100 000 000,—

Floating Rate Notes
Schuldverschreibungen — Serie 225
1987/1997

For the three months 25th May 1987 to 24th August 1987 the notes will carry an interest rate of 3,65% (Fibor less 0,10%) per annum with a coupon amount for DM 45,63, per DM 5000,— note. The relevant interest payment date will be 25th August 1987.

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U.S. $125,000,000

BANK OF BOSTON CORPORATION

Floating Rate
Subordinated Notes Due 1998

Interest Rate	7.675% per annum
Interest Period	26th May 1987 26th August 1987
Interest Amount per U.S. $50,000 Note due 26th August 1987	U.S. $980.69

Credit Suisse First Boston Limited
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CONSTRUCTION

Refurbishing Watergate

TRAFALGAR HOUSE CONSTRUCTION MANAGEMENT INC (THCM) has been awarded the management contract for the $10m refurbishment of one of Washington's famous hotels — the Watergate Hotel — located on the banks of the Potomac River. Awarded by Buckingham Holdings Inc, investment arm of one of the largest UK pension funds—that of British Coal—the project encompasses the comprehensive revamping of this hotel.

The Watergate will be operated by Cunard Hotels and Resorts Inc. There are 239 rooms of which there are 91 guest rooms, 60 Georgetown suites, 160 executive suites, 13 diplomat suites, 12 presidential suites and 1 royal suite. During refurbishment the hotel will continue to operate. The works programme generally comprises decorations, fittings, and some minor demolition and construction. The refurbishment style will be classically English, and the lobby and reception areas will be marble clad with fluted red wood doric columns. Apart from the guest rooms, nearly 27,600 sq ft of public areas will be up-graded. These include two restaurants, conference and banqueting facilities and the health and fitness club.

Polly Peck's Turkish hotel

CEMENTATION INTERNATIONAL, a Trafalgar House company, has been appointed as the construction manager for a de luxe five-star hotel worth $34m (£20.3m) at Antalya, Turkey, by Polly Peck International.

The hotel will be constructed on a five-hectre site overlooking the Konyaalti beach and a Mediterranean coastline set against the backdrop of the Toros Mountains. It will provide tourists (for 10 months of the year) with the opportunity of being able to swim and ski within a few hours' drive.

Antalya is considered one of Turkey's most beautiful regions and is steeped in history. The area abounds with breathtaking scenery and antiquities including the Perge ruins known as the ruins of the Queen of Sheba. Nearby at Aspendos is the world's largest Roman amphitheatre which holds 20,000 people and is still used to this day.

Designed by architects YRM International in association with Poly Peck International's architects' department, the hotel will provide first class facilities for the increasing numbers of tourists which are visiting the region.

The eight-storey hotel will be constructed over a 27-month period in three wings with a feature atrium and will stand on a rocky cliff with its own private beach below. A cable car will carry residents to and from the hotel and beach. All guest rooms will have panoramic views and are being built to larger than normal dimensions. There will be a total of 500 rooms, including 16 suites.

Apart from the usual facilities of restaurant, coffee shops, banqueting and conference rooms, patisseries, shops and heated swimming pool, there will also be extensive sport and leisure facilities including a golf course, an international casino and a discotheque.

Trafalgar House companies, T.H. Engineering Services and Y.A.Y. International, are responsible respectively for the civil and structural design and the mechanical and electrical design. Mr Armagan Tekvar, group architect for Polly Peck, comments: "This hotel project is the first in a series of international leisure developments which Polly Peck is planning."

Extending Nissan's factory

SIR ROBERT McALPINE & SONS has begun work on a third design and management contract, worth £8.5m, for Nissan Motor Manufacturing (UK) covering a further extension to its new car assembly plant at the former Sunderland Airport site, Washington.

Work on the contract, due for completion in March 1988, comprises a 234 metres by 36 metres extension to the paintshop together with separate paint mixing and storage buildings and associated parts storage areas, construction of a plastic injection shop 90 metres by 90 metres and alterations to access roads. The new single-storey buildings will be of steel-frame construction and clad with composite steel panels to match existing buildings.

The extension will enable Nissan to increase production by more than 20 per cent from 24,000 to 29,000 cars per year which will provide 300 new jobs in addition to the 270 extra jobs already planned. This will more than double employment on the Nissan production lines from 580-1,100 by the end of 1987 and will involve the introduction of a nightshift in November—some eight months ahead of Nissan's original programme.

AMEC to build for Digital

AMEC PROJECTS, part of the AMEC construction group, has won a £30m management contract to build the Digital Equipment Company's new semi-conductor factory at South Queensferry, near Edinburgh, writes Joan Gray, construction correspondent.

No further details will be available until the contract is formally signed, although AMEC has received a firm letter of intent from Digital.

Digital, a US computer manufacturer, announced in January this year that its plans to build a new silicon chip plant at South Queensferry—a total investment then estimated at £85m — were a year behind schedule as a result of major design changes to allow greater manufacturing flexibility.

But the company then said it hoped to begin construction on the site this summer for the plant to come into operation in 1989.

AMEC Projects is the group's specialist management contracting subsidiary, with particular experience in high technology projects and in contracts where major design changes need to be incorporated in the course of the work.

It has been involved in five large high technology schemes in the past two years, building production facilities and clean rooms

*

Resurfacing RAF airfield

The Property Services Agency has awarded BALFOUR BEATTY CONSTRUCTION a third contract at RAF Honington, Suffolk. The two previous contracts were for hardened aircraft shelters. This latest contract, valued at £5.28m, is for resurfacing runways, taxiways and hardstanding with Marshall asphalt. Overslabbing of runway ends and hardstanding with P.Q. concrete, markings and other minor works are included. Completion is due by the end of December.

هكذا من الأصل

THE ARTS

La traviata/Glyndebourne

Max Loppert

There are strengths — illuminating psychological insights, skilful stage pictures, shafts of trenchant social criticism, *moments of fragrant Verdian* beauty — in the new production of *La traviata*, Peter Hall's and Bernard Haitink's first, that launched the 1987 festival season on Sunday. But you had to work rather too hard to winnow them out from the dross, the dominating heavinesses and clumsinesses, that appeared uncomfortably plentiful during a more than usually nerve-wracked Glyndeborune opening performance.

There are many reasons why of all Verdi operas *La traviata* is surely the one most suitably housed in this theatre. Perhaps the most profound personal tragedy that the medium has ever produced, it is essentially *an intimate piece, closely* worked, and scored with devastating spareness. Everything that makes it a great opera should properly be enhanced and emphasized at Glyndebourne; yet for too much of Sunday's performance an opposite process seemed to be under way.

Certain faults of execution will no doubt be corrected during the run. Haitink's uncharacteristically heavy-footed tread through the score must lighten, and his hard driving *of* the LPO and the singers in the Act 2 finale must lessen. So too the "oversinging" of Marie McLaughlin in dramatic outbursts (no doubt under pressure from the conductor), and the resort to big-house volume-production by Walter MacNeil (Alfredo) and especially Brent Ellis as his father when the theatre itself invites and encourages refinement, subtle nuances of tone and verbal delivery, exquisite economy. From an aisle seat much of the action seemed badly blocked — not to see Violetta's face during "Amami Alfredo" is a cruel deprivation —but this should sort itself out.

But whether there will then be revealed a convincing sum total to the Glyndebourne *Traviata* is harder to determine, even after every first-night excuse has been recorded. It is handsomely set and detailed by John Gunter: a Manet dinner party; a tasteful living room of a *maison de province* (with beautifully delicate lighting by David Hersey to throw beams from the rear conservatory); a roseate Second Empire amusement room (the divertissements become a witty and apposite demonstration of period male prurience); a bedroom cluttered with the portrait-reflexions of Violetta's past.

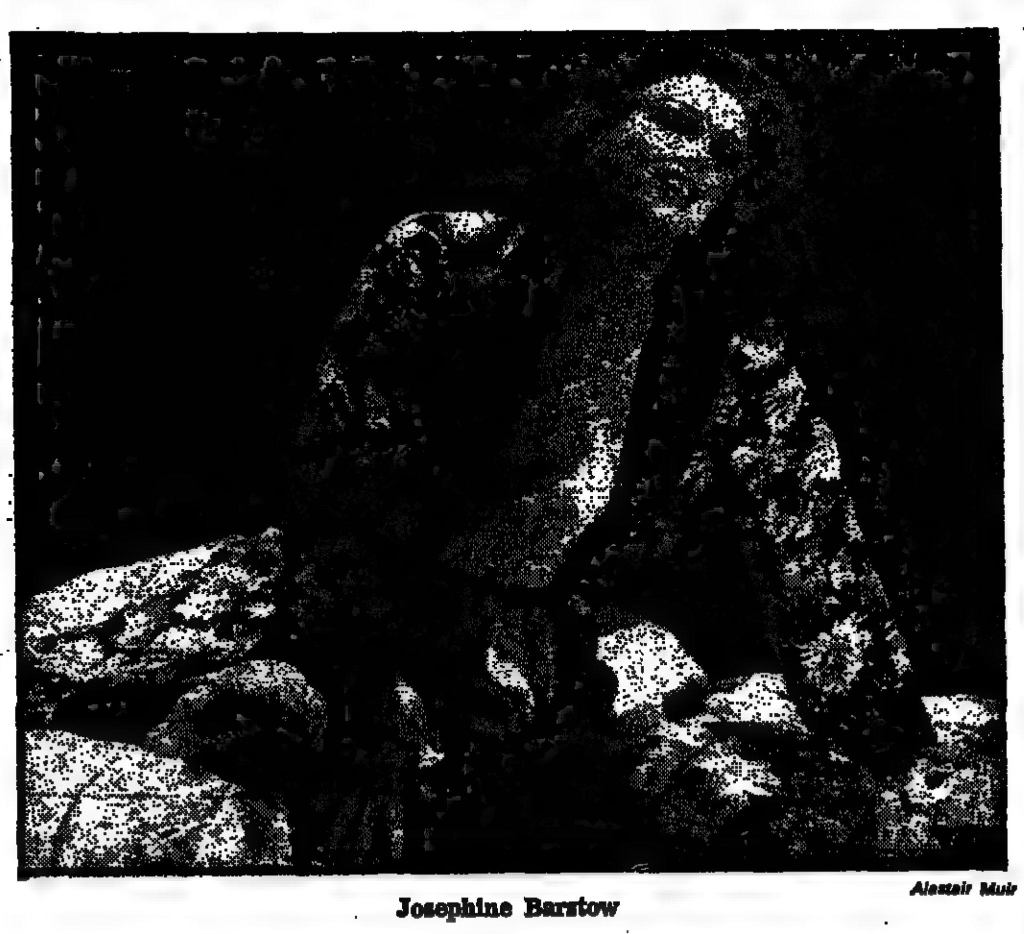
Hall's wonted fidelity to the text produces some glancingly intelligent *aperçus* (in the opening scene Violetta coughs blood into a handkerchief, then tosses it hastily away; Annina — a brilliant cameo by Enid Hartle — seizes with delight the letter addressed to her mistress's former wealthy protector). Clocks, skulls, and masks place a subtle chain of *memento mori* motifs. The bourgeois rectitude of Germont *pére* is unflinchingly presented.

Elsewhere, however, a static, inert quality settles on the drama. For a Peter Hall production the amount of business devised to incommode a singer *—Violetta extinguishing candles* and over-filling wine-glasses during her Act 1 *scena*, Alfredo laboriously cleaning a gun while singing of his "bollenti spiriti" — is extraordinary copious. And relationships, the nub of *La traviata*, remain ill-defined: Mr MacNeil, son of the eminent American baritone Cornell MacNeil, has a pleasantly fresh, forward *lyric tenor and good* Italian enunciation, but on Sunday his Alfredo was more or less a blank.

It is in its heroine that this production offers greatest grounds for optimism. On Sunday the McLaughlin Violetta was still only a sketch. She needs to think particularly hard about her first appearance (girlish party spirits are not the full story at this point in the character's history), and to jerk around less energetically in the last act. It was a pity she refused us the second verse of "Ah! fors'e lui" (a complete, uncut *Traviata* text had been promised) to match both verses of "Addio del passato," interestingly and movingly sustained.

The dark hair, luminous big eyes, and quicksilver courage of this Violetta are on the right lines; no less so the lustrous beauty of the voice, which with each new role grows surer, fuller, and more firmly produced in all registers. In "Dite alla giovine" the control of *fil di voce*, swelling dynamic range, and an immaculately placed soft high conclusion provided the evening's only really authoritative affirmation of the Verdian *dramma per musica*.

Marie McLaughlin, David Hillman and Walter MacNeil



Alastair Muir

Josephine Barstow

Lady Macbeth of Mtsensk/Coliseum

Max Loppert

In mounting the long-delayed British stage premiere of Shostakovich's *Lady Macbeth of the Mtsensk District*, English National Opera have gone all out for a smash-hit sensation. And achieved their goal several times over: Friday's performance was probaly one of the most sheerly loud evenings at the Coliseum in the company's history—also one of the most riveting, most expertly and brilliantly sung, played, staged, and acted. It was, therefore, an experience at once exhilarating, exhausting, and disquieting. The work itself is all those things, of course; but the focus and style of the production also left room for various kinds of disquiet, not all of them generated by Shostakovich himself.

Since the troubled performance history of the opera itself has direct bearing on important aspects of David Pountney's production in the designs of Stefanos Lazaridis (yet another ENO triumph for him), it needs to be briefly repeated here. The work had its premiere in 1934, and an initial run of successful performances; then Stalin encountered it, was outraged by it, and denounced it (in a famous *Pravda* editorial inspired by even if not actually by, the dictator himself) as "fidgety, screaming, neurotic music."

The oprea was withdrawn, and Shostakovich's operatic career came to and end—though in the late 1950s he did revise *Lady Macbeth* as *Katerina Izmaylova*, toning down the *uninhibited* language verbal and musical, the riproaring stage incursions of a brass band, the scabrously graphic sexual depiction, that had touched Stalin to the quick (it was this revision that had its British premiere at Covent Garden in 1963).

Stalin's response, though tragic in its consequences — for Shostakovich personally, for the course of Russian opera, for the freedom of Soviet artistic expression—was not essentially inaccurate. *Lady Macbeth of Mtsensk* is one of the most "extreme" of 20th-century operas; provocation was indeed intended. The Shostakovich who had fledged his theatrical genius on the comic surrealism of *The Nose*, who in his early music had brushed creatively with the steel-and-smoke Futurism of Mossolov, the *enfant terrible* high jjinks of Prokofiev, the highly-wrought Expressionist *angst* of Berg's *Wozzeck* — it was this composer who came face to face with the Russian narrative tradition as embodied in Ikolay Leskov's short story.

The opera is not just a concatenation of comic, brutal, or grotesque outbursts; the lyrical laments of Katerina herself, framing the whole work, and the deep strain of compassion exposed by both female domestic suffering and prison-camp oppression, make it a huge, complex, many-sided experience. (Shostakovich said of the opera, "It is . . . about love, also about how *love* could have been if the world weren't full of vile things".) But the method of the score, with its frenzied ostinatos and wild set pieces, is to rub hard against the Russia realism of the plot—and, so doing, to rub an audience's sensibilities raw.

Instead of ensuring the fraught balance between "modernist" music and realistic narrative, Pountney has overthrown it. The production is a remarkable piece of stagecraft, glittering, endlessly inventive, slickly set in motion (stage and pit were not always together last Friday, but that will surely improve).

The set is a massive metal structure of ladders, ramps, and walkways, with a giant wheel dominating the left side; rotting meat carcasses hang from all points; a central revolve spins. The action is pivoted upon the prominence of psychologically resonant images. The early decades of film dominate the mechanised chorus movement; Chaplin, Keaton, Fritz Lang and Clair are constantly evoked. Absurdities are vigorously underlined.

After a while, the mirroring on stage of every ostinato pattern becomes wearisome. More troublingly, Pountney (also provider of the fine new translation) has updated the story to the opera's own period, and reworked the prison camp to hold the number-carrying vicitims of Stalinist purges. *The epic outdoor bleakness* of the finale is lost; worse, the producer's nudging-out of these showy Life-and-Art parallels dilutes both the wider social criticism and the compassion. Not for the first time, one starts to wonder whether Pountney'sgift for stage animation has run away with him.

All this said, the ENO *Lady Macbeth* is a show no London theatregoer can afford to miss. Mark Elder conducts with superb authority; his mastery of the idiom is evident not just in the passages of furious satire but no less in his sustaining of the gaunt lyricism—the music has also its dangerously bare, plain moments, which he never *allows to sag*.

The cast is tremendous. Sally Burgess, Alan Woodrow, Stuart Kale, and Maria Moll (among others) give virtuoso accounts of their smaller orles. Willard White as Katerina's brutal father-in-law sings and acts with marvellous strength, though his physical presence remains obstinately attractive *(more extensive makeup might* help here). The American Jacque Trussel, remembered from the Welsh National *Carmen*, provides both a handsomely virile figure and a brave tenor (the vocal lines of the original version lie punishingly high) as the seducing Sergey.

And, if there were no other reason to praise the performance, Josephine Barstow as Katerina would still make this a production in a million. Over the years I have strained every descriptive resource attempting to hymn the special qualities of *this passionate, courageous*, musically and dramatically protean performer. Epithets threaten to run dry over Shostakovich's great title role, surely among her very finest achievements. The discipline of voice and body, the command of intense stillness (which acts as a mute reproach to directorial over-busyness), the sharpness of inflextion: in these thhings alone the Barstow Katerina is a lexicon of the singer-actor's art. There is, after all, compassion in this *Lady Macbeth*, with such a performer at its centre.

Open Air Theatre in Regent's Park

The Open Air Theatre, Regent's Park, season opens on June 1 with Ben Jonson's *Bartholomew Fair*, to be followed by *A Midsummer Night's Dream* on June 17 and *Two Gentlemen of Verona* on August 4.

Billy Budd/Theatre Royal, Glasgow

Max Loppert

The electrifying new production of *Billy Budd* that opened on Thursday in Glasgow, continues the revival of Scottish Opera fortunes as already evidenced in its current Silver Jubilee season. It is very much a home-team effort: John Mauceri, the company's music director-elect, conducts; Graham Vick, director of productions, stages the opera; *the cast is full of British* operatic talent. The total is one of the strongest statements about this deeply disturbing and equivocal work — grand opera, historical epic, domestic tragedy, and symphony for men's voices all in one—that we have seen and heard.

There are two opposite views about the opera: the special strength of Mr Vick's production in Chris Dyer's designs is to afford the spare, directly focused means of matching and even reconciling them. The first —the central battle of good and evil, innocence and corruption —is of course a much-discussed Britten theme.

The second is one rather less overt in text and music, but which the passage of time reveals with ever greater clarity: a study in vicious social repression, of naval serfs by their overlords, in which Claggart can be seen as much a victim of the "system" as those he victimises, and in which the death of the forgiving Billy leads to a deeply depressing reaffirmation of the status quo. This is not a view that Britten, Forster or Eric Crozier might admit to or even accept (in a sense *Billy Budd* is Britten's first Tory opera); yet the work proves all the richer, and the music all the more overwhelming, for the troublesome, contradictory aspects one can find in it—as this production indeed does.

The single set, a rugged metal construction, is also a single dominating dramatic image—a ship seen in transverse section, layered in deck levels, pivoted on a central mast, and contained like a globe or crucible. The "whole world" of Vere's floating monarchy (or slave ship, which is what it is) is ceaselessly evoked in the action — the physical detail of the production is at once economical and stunningly vivid—and with it the hideous violence that runs through the drama like an open sore.

Few opera performances so fully catch a sense of community: in the war-hunt the general exhilaration of battle is set, by the simple drop of a great British flag, in a precise context of irony. The one textual licence — the appearance of a dressing-gowned alter ego of the old captain haunting the main action like an agonised conscience — does wonders in *filling out and (as far as possible)* mitigating the extraordinary behaviour of the opera's central character.

Billy Budd, like *The Makropoulos Case*, is a difficult opera to which all companies always rise with their best efforts; even so, the power and punch of Thursday's performance marks it out as something special. At the head of a faultless cast is Philip Langridge, whose Vere ranks alongside his Idomeneo as an unforgettable study of an operatic ruler fraught with fatal weakness: every note, word, glance has its individual shade and pointing, yet the portrayal is never in the least fussy or artificial.

Mark Tinkler

John Tomlinson's Claggart is very strongly sung (except perhaps at the top), and lived from within — the physical stiffness, a product of class and sexual tensions alike, is quite brilliantly relayed. Mark Tinkler, fresh out of the Royal Northern *College, where he first took* Britten's title role, has in contrast a more genuinely free and natural physical command of the part than any other Billy of my experience though at times *his voice still lacks forwardness* and clarity of projection.

Around these superb central *contributions too many others* demand mention—that is always the case with a successful *Billy Budd*, Peter Knapp (Redburn), Andrew Shore (Flint), Henry Newman (Donald), Donald Stephenson (Red Whiskers) and John Tranter (a *splendidly truculent Dansker*) are outstanding: Paul Harrhy's painfully soft, sweet Novice was sung with a chest infection but made its mark all the same.

Mr Mauceri draws from his orchestra and chorus a wonderful brightness and resonance of sound (except, strangely, in the famous culminating sequence of 34 chords, which on Thursday was oddly untidy). He seems to have a particular feeling for its open-air side, its Gershwin and Delius echoes; this leads him to draw out Act I in what some might feel to be too leisurely a *mood; for me*, the dramatic movement never faltered. To hear this opera in a theatre of medium size and perfect acoustics is to be left —beyond all passing doubts about content or meaning—with a profoundly renewed sense of Britten's musical genius.

Drottningholm in Brighton

David Murray

This year's Brighton Festival has been ornamented by an exhibition from Gustav III's Drottningholm Court Theatre, a delightful royal folly to *match Brighton's own. After* Gustav's impeccably operatic assassination in 1792 (at Verdi's "masked ball"), the theatre was closed and the building put to indifferent purposes; 180 years later the stage machinery and many original sets proved to be rescuable, and since then there has been regular period opera at Drottningholm.

It was natural that modern advocates of "authentic" playing style should covet Drottningholm for full-dress recreations. Charles Farncombe promoted Handel opera there, and now Arnold Ostman has become artistic director, pursuing "period" ideals assiduously. The Brighton Festival had the excellent idea of inviting him (with sponsorship by Brighton Marina Village) to bring two Drottningholm Mozart productions to their own not dissimilar Theatre Royal—with pretty much the young Swedish home team, not the starry casts who appear at Gustav's palace in high summer.

Some expectations were disappointed. The Theatre Royal stage lacks Drottningholm's depth (was that why we were denied the onstage bands for Don Giovanni's party-) and also its friendly acoustic; Brighton's plush is no substitute for warm Swedish wood, and its dulled Ostman's soft-voiced instruments. The sour tuning widely remarked at the first *Don Giovanni* was cured by the third performance, which I heard, but in sustained music the strings were woefully dim — especially in *Idomeneo*, which is less enlivened by woodwinds than *Giovanni*. It is one thing to avoid Romantic expressive*ness, quite another to eschew* expression altogether. For the Prague première of *Giovanni* Mozart had an orchestra no bigger, but it *must* have been stronger. Nor did the chorus *in Idomeneo* carry its weight.

Östman's preference for brisk tempi is notorious. In general, I have no doubt that it is sound, and that we too often *turn a Mozart or Haydn* Andante into an Adagio; but it is perverse to make Ottavio and Anna gabble their grieving-but-rsolute duet after the Commendatore's murder, and to take "Ho capi to" at a speed which your Masetto can barely manage. Yet both the great *Giovanni* finales delivered the authentic frisson of Mozart music-drama, which many a *Giovanni* doesn't; *something* was seriously right. There were many bright, mostly unshowy ideas in Göran Järvefelt's frankly modern production (under-reviewed, I think; perhaps the first night was in disarray), one of them being to make Giovanni increasingly wild and self-destructive right up to the fateful arrival of the statute.

Magnus Lindenén's hero needed that theatrical kick, for the role was sadly under-sung: a robus "champagne aria" *(sans* champagne, praise be) was small compensation for hours of ill-judged *mezza voce* that failed to carry, laced with moments of parody-honeyed cajoling and toneless recitative. *Far nearer the mark were* Malvina Major's mature, stylish Donna Elvira and Hillevi Martinpelto's generous young Zerlina, and the looming stature of Bengt Rundgren's Commenda*tore was matched by his* rock-solid delivery.

Young Petteri Salomaa's promising Leporello is too casual and indulgent as yet to extract the best from his music. There was more cultivated promise in Stefan Dahlberg's keen, bright-voiced Ottavio, and Raimo Laukka's Maetto was always intelligent when not rushed off his *feet*. Clarry Bartha's Donna Anna was like the Ilia and Electra of Anne-Christine Biel and Anita Soldh in *Idomeneo:* attractive timbre, well-schooled phrasing, the merest hint of aligning the vocal thread with character and situation.

There was enough creative involvement in the *Don Giovanni performance that I was* very glad to have seen it, and there were many passages in which the antique instrumental voices discovered new point (as often they do). *Idomeneo* is a tougher nut, and unlike Järvefelt, Michael Hampe aimed at a stately production which might respect the presumed limits of the original. Little in the stage movement gave positive support to the action but the flowing side-to-side rushings of the chorus in the storm-and-sea-monster scene (dampened by a clumsy backcloth of Neptune's head—most of the Drottningholm drops were prettier and apter). The serious burden was thus placed upon pure singing, upon which *Idomeneo* makes rigorous, grownup demands.

Arts Guide

May 22–28

Opera and Ballet

LONDON

Royal Opera, Covent Garden: Turandot, one of the house's most successful and enjoyable productions of recent years, continues in repertory, with Eva Marton (May 22) and Gwyneth Jones (25) in the title role, and Jacques Delacote as conductor. Werther, a pretty-pretty John Copley production of Massenet's opera, is revived to introduce Francisco Araiza and Agnes Baltsa to London in the leading roles. (240 1066).

English National Opera, Coliseum: Shostakovich's Lady Macbeth of Mtsensk, in a new production by David Pountney conducted by Mark Elder, adds another key Russian opera to the company's repertory. Josephine Barstow, Jacque Trussel and Willard White lead the large cast.

Also in the schedule: Don Giovanni, led in lively fashion by William Shimell, Richard Van Allan, and Rita Cullis; and the Gerald Scarfe designed Orpheus in the Underworld, more notable for elaborate, fantastic sets than for any very authentic sense of Offenbach wit or satire. (836 3161).

PARIS

Der Fliegende Holländer with Marek Janowski/Christopher Perick conducting the romantic parabole on the solitude of the artist in society. Paris Opéra (4266 5022).

Spectacle Ecole de Danse presents The Two Pigeons followed by Suite en blanc in hommage to Serge Lifar at the Opéra Comique (4296 0611).

Ballet Antonio Gades at the Palais Des Congres (4266 2075).

Merce Cunningham Dance Company with his radically modern conceptions. Théâtre de la Ville (4274 2277).

NETHERLANDS

Amsterdam, Muziektheater. The Netherlands Opera with Puccini's Madame Butterfly directed by Monique Wagemakers and designed by Hermann Soherr. The Netherlands Philharmonic conducted by Lucas Vis, with Hiroko Nishida (Cho-Cho-San), Franco Farina (Pinkerton), Judith Christin (Suzuki), and Malcolm Donelly (Sharpless). (Thur). (255 455).

The Netherlands Opera touring company with the Barber of Seville directed and designed by Dario Fo, the Netherlands Philharmonic conducted by Stephen Barlow. Kathryn Cowdrick (Rosina), Yoshihisa Yamaji (Almaviva), and David Malis (Figaro). Tue in Tilburg, Schouwburg (432220).

Scheveningen, Circus Theatre. The Nederlands Dance Theatre, with the Netherlands Ballet Orchestra under David Porcelijn. World premieres of ballets by Jonathan Taylor, Nacho Duato (to Ravel's Bolero) and Symphai (Duato/Xenakis, Vangelis) (Thur). (55 88 00).

SPAIN

Madrid, Puccini's Il Trittico with Vladimir Atlantov, Juan Pons, Diana Soviero, Iolanta Radek. An own production, first time in Madrid. Teatro la Zarzuela. Jovellanos 4, (Wed).

NEW YORK

American Ballet Theatre (Metropolitan Opera House): Cynthia Gregory, Marianna Tcherkassky and artistic director Mikhail Baryshnikov return for the spring season of mixed programmes, including company premieres of Sunset choreographed by Paul Taylor to Elgar and Enough Said, Clark Tippet's choreography to George Perle's music. Lincoln Center. Ends June 13. (362 6000).

New York City Ballet (New York State Theater): More than 40 works by Balanchine, Robbins, Peter Martins and other choreographers will be part of the two-month-long 39th season, including two new works by Martins set to music by Händel and Michael Torke. Ends June 28. Lincoln Center (780 5570).

TOKYO

Australian Ballet Company. Don Quixote. (Tokyo Bunka Kaikan (Tues, Wed). (573 3588).

Music

LONDON

Royal Philharmonic Orchestra conducted by Nicholas Cleobury with Andrew Wilde, piano. Rossini, Bizet, Rachmaninov and Dvořák. Royal Festival Hall (Mon). (928 3191).

London Symphony Orchestra conducted by Leonard Slatkin with John Lill, piano. Glinka, Prokofiev and Tchaikovsky. Barbican Hall (Tue). (638 8891).

BBC Welsh Symphony Orchestra conducted by James Loughran with Peter Donohoe, piano. Glinka, Prokofiev and Tchaikovsky. Royal Festival Hall (Tue).

London Bach Orchestra directed by Tessa Robbins Khambatta, violin. Bach, Händel, Haydn and Bottesini. Queen Elizabeth Hall (Tue). (928 3191).

Philharmonia Orchestra and Chorus conducted by Riccardo Muti. Beethoven. Royal Festival Hall (Wed).

Royal Philharmonic Orchestra conducted by Enrique Batiz with Julian Lloyd Webber, 'cello. Dukas, Elgar and Tchaikovsky. Royal Festival Hall (Thur).

Academy of St. Martin-in-the-Fields directed by Iona Brown. Mozart, Schoenberg and Tchaikovsky. Queen Elizabeth Hall (Thur).

PARIS

Baroque Music: Gluck's Armide in concert version, Tafelmusik Baroque Orchestra and Ensemble Vocal de la Chapelle Royale – Paris conducted by Alan Curtis with Montserrat Caballe (Mon, Wed) TMP-Chatelet (4233 4444).

Händel's Oratorio Theodora, English version, conducted by Jean-Claude Malgoire with the Tallis Choir (Mon, Thur). Salle Favart-Opéra Co*mique* (4296 0611).

Ensemble Orchestral de Paris conducted by Emmanuel Krivine, Michel Portal, clarinet, Philip Bride, violin solo: Mozart, Haydn (Tue). Salle Pleyel (4561 0630).

Orchestre Colonne conducted by Claudio Scimone, Orchestre Colonnes Choir conducted by Jean Sourisse: Verdi's Four Sacred Pieces (Tue). La Trinité church (4233 7289).

Orchestre de Paris soloists – chamber music by Debussy, Tisne, Schmitt, Caplet (Tue 6.15pm). Salle Pleyel (4561 0630).

Elizabeth Herbin, piano: Schubert, Liszt, Rene Herbin, Beethoven (Wed). Salle Gavean (4563 2030).

NETHERLANDS

Rotterdam, Doelen. Organ recital by Arie Keijzer: Bach, Franck, Keijzer, Widor (Mon). (414 2911).

SPAIN

Barcelona, Philippe Herreweghe conducting soloists playing original instruments to music by Soler, Cererols and Valls at Salo del Tinell, Plaza del Rey. (Wed).

Madrid, chorus and Orchestra of Barcelona's Festival of Early Music with La Chapelle Royale's conductor Philippe Herreweghe, soprano Monique Zanetti, contralto Eulalia Salbanya, tenor Joan Cabero Masterpieces of *Catalonia's baroque music* (Tue); Teresa Zylis-Gara (Wed). Teatro Real, Plaza de Oriente.

NEW YORK

Carnegie Hall: Manhattan Philharmonic. Peter Taboris conducting. Mozart, Brahms (Mon). New York Pops Orchestra. Skitch Henderson conducting, Liz Smith narrator. Mixed programme (Wed). (247 7800).

Juilliard Concerts (IBM Gallery): Chamber Music of Russell Currie. (Wed, 12.30). 56th & Madison.

New York Philharmonic (Avery Fisher Hall): Giuseppe Sinopoli conducting. *New York Choral Artists* directed by Joseph Flummerfelt and Brooklyn Boys Chorus directed by James McCarthy. Mahler (Thur). Lincoln Center (874 2424).

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting. Rossini, Albert, Tchaikovsky (Thur). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting. All-Strauss programme (Tue); Sir Georg Solti conducting, John Sharp, 'cello. Dvořák, Beethoven (Thur). (435 8111).

TOKYO

USSR State Symphony Orchestra with Hiroko Nakamura, piano. Glinka, Tchaikovsky, Shostakovich. Tokyo Bunka Kaikan (Mon). (235 1661).

Kathleen Battle, soprano with Japan Philharmonic Orchestra conducted by Seiji Ozawa. Arias and songs. Hitomi Hall, Showa Women's College, Sangenjaya (Mon). (573 3588).

Das Gewandhaus Orchester Leipzig, conductor: Kurt Masur, Brahms, Beethoven. Suntory Hall, Akasaka (Tue). (505 1010).

Martin Hornstein, cello with Eugen *Jakob, piano.* Beethoven, Schubert, Brahms, Martinu. (Thur). (496 0950).

Obituary/Hermione Gingold

Michael Coveney

Hermione Gingold, who died in New York on Sunday aged 89, was the last great British revue artist, achieving the peak of her fame during the last War in the Gate revues and the *Sweet and Low* series that began at the Ambassadors. She was a grotesque comedienne with a voice described by one critic as "a whole two octaves of sneer."

Her personality was bountiful, her conversational style waspishly inimitable; after lunching with the two Hermiones (Gingold and Baddeley), James Agate declared he had done some of his wittiest listening.

She made her stage debut in *Pinkie and the Faires* in 1908, Ellen Terry in the lead. Old Vic ambitions were soon sacrificed for the serious business of laughter-raising and musical comedy. On Broadway in 1960 she was "strangely hilarious" in an ill-advised musical adaptation of *Pride and Prejudice*, Kenneth Tynan remarking of her that: "No actress commands a more purposeful leer; and in nobody's mouth do vowels more acidly curdle."

She became a cult *figure in* New York, much in demand on the TV chat shows. Her persona was demonic and lewd, but she had great style and charm, not often exploited. An exception was her singing of "I Remember It Well" with Maurice Chevalier in the film *Gigi*. A haughtier, more wistful regret informed the small role in which she was last seen on the London stage (after *introducing it on Broadway*), Mme Armfeld in Stephen Sondheim's *A Little Night Music* (1973). She was twice married — to the publisher Michael Joseph and the writer Eric Maschwitz — and twice divorced.

Summer at Sadler's Wells

From June 9 for two weeks Les Grands Ballets Canadiens will be at Sadler's Wells with three Balanchine works—*Agon, Square Dance* and *Four Temperaments*. Also in its programme will be Antony Tudor's *Lilac Garden*, Paul Taylor's *Aureole*, and some new ballets from the company's resident choreographer, James Kudelka.

Lindsay Kemp and Company will follow the Canadians from June 23 for three weeks, with three programmes, *A Midsummer Night's Dream, The Big Parade* and *Flowers*.

Folowing Kemp, the Merce Cunningham Dance Company arrives for a two-week season with five British premieres—*Grange Eve, Shards, Fabrications, Arcade* and a BBC Television commissioned *Points in Space*. *Pictures* completes the

MANAGEMENT: Small Business

WHEN DID you last have an argument with your partner along the lines that running a home and bringing up children was the best training available for running a business? Moments of domestic frustration are the usual trigger for the "women could run this country/company / organisation better than men" polemic.

"Many women, if they analysed their normal activities, would realise that they have been entrepreneurs all their lives," says Baroness Seear, long-time supporter of a greater role for women in business.

"Take running a children's party. It is essential to have clear objectives: get them adequately but not biliously fed; prevent them smashing up the furniture or each other; get them out of the house on time and in one piece. Success demands planning, co-ordinating, monitoring, controlling."

There is increasing evidence that women are backing their arguments with action. In both Britain and the US women are now setting up in business at a faster rate than men. Many businesses are set up by women who have spent years at home bringing up a family, but it tends to be those created by career women who have rejected big company employment for the independence of running their own show which enjoy the fastest growth.

Many have taken encouragement from the likes of such women as Sophie Mirman, co-founder of Sock Shop, the phenomenally successful retailer of colourful hosiery; Anita Roddick, who set up Body Shop International, the natural cosmetics chain; and Jenifer Rosenberg, managing director of J & J Fashions, a privately-owned supplier to Marks and Spencer, and the most recent winner of the Veuve Cliquot Businesswoman of the Year Award.

Despite this rapid increase in the number of businesswomen on whom other would-be entrepreneurs can model themselves, many women still feel at a disadvantage when it comes to setting up and running a business.

For this reason, women's support groups have been set up around the country to provide advice, training and encouragement. Women in Enterprise, a Yorkshire-based organisation set up last September, has already attracted 140 members and is setting up a country-wide chain of women's business clubs.

The Small Business Bureau, the Conservative Party's lobby group, has begun a Women into Business programme of seminars, while the Women's Enterprise Development Agency, launched last month,

Sophie Mirman (left) and Judi Jurak: both started up from a big business background

Women take charge

Charles Batchelor on the increase in female-owned businesses

plans a nationwide network of agencies to support women who want to be self-employed.

Why are more and more women setting up in business on their own? "There is now a growing number of educated, career-orientated women who have potential but who can't achieve it in large companies because their progress is blocked by men," says Rob Goffee, lecturer in organisational behaviour at the London Business School.

Jenifer Rosenberg started in the post room at Marks and Spencer but had risen to control buying power of £70m when she decided to break away in 1974.

"There comes a point when you realise you can only go so far in a company," she says. "The opportunities that are available for men seem to elude women. Rather than bang my head against a brick wall I decided to start my own business."

J & J Fashions now employs more than 1,500 people turning out 75,000 garments a week and has a projected 1987 turnover of £40m.

Other women find that another attraction of self-employment, if they are still bringing up a family, is the flexibility it gives them which paid employment lacks.

The latest annual report of the US Small Business Administration points to similar reasons for the 9 per cent annual growth rate of women-owned enterprises in the US compared with the 4 per cent rate for men-owned businesses.

It also picks out technological changes which have reduced the cost of business start-ups, the trend for firms to contract out services and women's increased participation in the workforce generally.

According to the Small Business Administration, the typical American woman business owner is married. This conflicts with the popular conception of the businesswoman who has sacrificed her personal life and marriage to her career.

A study published earlier this year by the UK Small Business Research Trust found that British women business owners were more likely to be divorced or separated than their male counterparts. But the percentages for both sexes were relatively low—5.8 and 1.7 per cent respectively, and both were lower than the rates applying to people in employment—5.5 per cent for women and 3.1 per cent for men.

Running your own business is less damaging to your marital health than folk wisdom would have us believe, the study concluded. Its authors acknowledged, however, that their figures took no account of women who had divorced and then remarried.

At whatever stage they start up in business, women face most of the problems which men encounter and more besides. Their most frequent obstacles are:

● Practical barriers. While a man setting up in business can employ his wife as a secretary and set her wages against tax, a woman whose husband is already working cannot do this.

A woman who has stayed at home to look after the family will find it difficult to register as unemployed and will not be able to claim the £40 a week enterprise allowance many men use to start their businesses.

● Establishing credibility. Women find men — and often other women — unwilling to take them seriously as business owners.

After many years as a schoolteacher, Wendy Brandon started making sugar-free chutneys and sauces from her home in Brighton and now supplies a number of leading stores. "When a middle-aged lady phones you up and says she makes chutney people tend to think: 'Oh one of those.' So I get in early in the conversation that I supply Harrods and Fortnum and Mason," she explains.

Judi Jurak and two friends had many years' experience in the computer industry before setting up Syslib, a Leeds-based supplier of computer equipment and services three and a half years ago.

But even they occasionally have to call on a man from another friendly company to handle customers who will not deal with a woman. "In traditional industries like heavy engineering they are used to dealing with men," says Jurak. "They are surprised to find a woman who is not a secretary."

● Their own inhibitions. Women frequently lack the confidence to deal with bank managers and accountants because society has traditionally not seen them in this role. Assertiveness training is given by a number of the women's support groups.

● Lack of support from husband and family. Many husbands resent their wives becoming independent and either obstruct or fail to support their attempt to start in business.

"It can be difficult in a working class community where the husband is only just managing to hold on to his own job but we have also come across women who are teachers or academics who have had the the same problem," says Kay Smith, founder of Women in Enterprise.

● The lack of male support network. "There is a male network of Rotary clubs, masons and chambers of commerce which women, particularly those starting from a domestic base, do not have," Smith notes. "But even a woman who has been successful in business can feel isolated. She might be the only woman in town running a big business."

The problems women face in business have been exhaustively documented. What has yet to be studied is how they can best overcome them. The women's support groups believe training and encouragement can compensate for many difficulties.

The British Government has gone a stage further and commissioned a survey by the Scottish Enterprise Foundation, based at Stirling University, to find out what makes a successful woman-run business. It is due to report later this year.

"People used to think that every small business faced the same problems," says Smith. "Business was regarded as being for men so all advice and training was tailored for them. Now research has shown there are many different types of entrepreneur. Women don't want better treatment than men but they do want to be equal."

Women in Enterprise, 26 Bond Street, Wakefield, WF1 2QP. Tel. 0924 361789. Women's Enterprise Development Agency, Aston Science Park, Love Lane, Aston Triangle, Birmingham, B7 4BJ. Tel. 021-359 0467. Small Business Bureau, 32 Smith Square, London, SW1P 3HH. Tel. 01-222 0330.

Revenue gives green light for venture capital

BY CHARLES BATCHELOR

THE BRITISH venture capital industry has won agreement from the Inland Revenue on a set of clear guidelines for funds which set themselves up as limited partnerships in the UK.

These guidelines have been under discussion for the past four years between the British Venture Capital Association, the Department of Trade and the Revenue and represent a major breakthrough for the industry in the UK.

Uncertainty has persisted for years over how the Revenue would treat many aspects of on-shore limited partnerships' affairs. With many funds now approaching their liquidation date, the issue had become more urgent.

In the past many funds had moved offshore, which involved the expense and inconvenience of establishing an operation in the Channel Islands or Luxembourg, or have turned themselves into publicly - listed investment companies, exposed to short-term performance pressures.

The BVCA has now agreed a four-point set of guidelines with the Revenue.

● Limited partnership funds will not be liable either to income or capital gains taxes. Instead, both taxes will be levied on the investors directly, thus avoiding a double tax charge.

● Investors in funds have limited liability as long as they do not participate in the management. This position was unclear previously.

● Fund managers who have a stake—known as a carried interest—in the capital gains of their investments will be liable for capital gains rather than income tax.

● Limited partnership funds may set off management charges against profits. With management fees amounting typically to 2½ per cent a year fees could add up to 30 per cent of the fund's value over its life, representing a considerable charge on investors.

"It is not that we have gone from negative to positive on any of these points but we have got clarity on a number of uncertainties," says Tony Lorenz, chairman of the BVCA's tax committee.

West Germany backs r & d

GRUNDIG, AEG-Telefunken Triumph-Adler. The roll-call of large West German companies wrong-footed, if in some cases only temporarily, by Far Eastern competitors is lengthy. Pressure on the country's smaller firms has been no less intense even if they have not caught the same amount of public attention.

Small firms are particularly hard-pressed when it comes to raising finance and funding research and development work.

More than half the patents registered with the German patents office are filed by individual inventors or by small- to medium-sized firms. Yet is is the smaller firm which is usually unable to fund the steps needed to convert research into marketable products.

The realisation that the small firms sector needed special attention has led to Germany's technology support programme being refocussed in recent years.

"We have launched a number of programmes aimed at the smaller company since the end of the 1970s and reduced support for the big companies which are profitable anyway," says Andreas Goerdeler, an official in the Ministry for Research and Development.

These programmes have been attracting interest from Britain and elsewhere in Europe.

The Ministries of Economic Affairs and Research and Development, currently have a four-point programme costing DM 1.02bn (£341m) to stimulate r and d work in small and medium sized enterprises.

● Subsidies for the payroll costs of employing researchers. More than 60 per cent of r and d spending goes on salaries so the government subsidises between 40 and 55 per cent of the salary cost of researchers. Total cost of this programme is DM 500m.

● Help to speed up the development of new technologies. The government defines a broad area of research such as microelectronics or robotics and supports companies at work in this field. Cost DM 140m.

A parallel programme, costing DM 158m to support specific r and d projects is also in place but this money tends to be taken up by large companies.

● Aid to improve co-operation between companies, research organisations and colleges and to speed up the transfer of technology. Small firms which contract out research work or which second r and d staff to gain further qualifications at academic institutes receive assistance. Cost DM 149m.

● Encouragement for Germany's infant venture capital sector to back high technology companies in the start-up stage. The big banks dominate the country's venture capital industry and are particularly cautious in committing funds to high tech ventures. Cost DM 70m.

With the German government now committed to scrapping some of its aid programmes in favour of a general round of tax cuts. DM 400m of the payroll subsidy scheme is likely to be ended soon.

But with the pace of innovation speeding up rather than slowing down support for the small firms sector in Germany seems set to continue.

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Tuesday May 26 1987

Insufficient homework

THE OVERALL performance of Britain's schools is so disappointing that it is proper that the reform of education should have become a major election issue. Neither the Labour Party nor the Conservatives can be proud of the generally low standards of achievement of the past two decades. This has little to do with whether schools are comprehensive or not.

The proportion of state school-leavers with five or more higher grade passes at O-level or CSE rose from 21.1 per cent in 1966 to 26.9 per cent in 1985 —a period during which the number of children in comprehensives reached 85 per cent of all state secondary school pupils. However, Britain's public examinations do not test absolute, unchanging standards, but rather sort candidates into the best and worst of a particular year. The actual standards remain low; the evidence is to be found in the growing pile of reports of studies of comparative attainment in Britain, the rest of Western Europe and Japan, particularly in mathematics and the sciences.

Core curriculum

Judged by the manifestoes, the Conservatives have moved further than the other parties towards recognising the nature of the problem. All three now accept the idea of a core curriculum, but the Tories' version is the most specific: it would emphasise mathematics, English and science; and progress would be assessed against levels of attainment in published syllabuses, at the ages of seven, 11 and 14. The other two parties talk in a more woolly way about a "flexible" (Labour) or "broad and balanced" (Alliance) curriculum, with individual performance recorded in "profiles" of achievement.

What is not spelt out is the degree to which they would consider it necessary or possible to override the resistance of the old order, in the form of local education authorities and the increasingly militant teachers' unions.

It is in these areas that the Conservatives show the most determination. They may not have handled the recent stages of the dispute with the teachers particularly skilfully, but they have not shrunk from necessity to impose a settlement after two years of disruption during which the main teachers' unions could not agree among themselves.

Again, the Conservatives propose that all secondary schools control their own budgets. The Alliance takes credit in its manifesto for pioneering this in Cambridgeshire and would extend it nationally—but the Tories would allow the newly-autonomous schools to opt out of local authority control, while whole London boroughs could march out of the Inner London Education Authority. Labour looks largely to bigger budgets.

It is not clear whether the Tory proposal to allow schools to run their own affairs stems from a general distaste for local government or, rather, a genuine conviction that some element of consumer choice in the form of "parent power" is the best way to improve quality.

Consumer choice

It is desirable that good education be regarded as an important goal by all elements of each community—local businessmen included. Properly constituted local authorities could encourage widespread involvement in the success of local schools. The Conservatives are not, however, putting forward proposals to reform or strengthen local government.

Thus the full weight of their policy falls on a combination of direction from Whitehall plus consumer choice. When Sir Keith Joseph was Education Secretary he wanted to introduce vouchers allocated to every parent, for spending on education. That proposal fell by the wayside; now the Conservatives suggest that schools' budgets be set by the number of pupils the school attracts. This has the merit of putting a premium on popular (?good) education, but it has the electoral disadvantage of raising more questions than the Conservatives have yet managed to answer.

Many of these questions may not be relevant to the debate about the quality of education. "Back to the 11-plus" and "back to grammar schools" are election-time headlines, not serious contributions. But the Conservatives, who must take the credit for a courageous strategy for education, have only themselves to blame if they are now seen to be floundering on the details. Mrs Thatcher, of all people, should have known that it is necessary to do one's homework. No wonder the Tory campaign has got off to such a poor start on what may be their strongest issue.

The case for Paul Volcker

ANY MAN who raises the hackles of former White House chief of staff Donald Regan, is under constant attack from Republican supply-sider Jack Kemp and remains willing to do the world's top central banking job for less than $100,000 a year, commands a fair measure of respect.

The real question, as President Reagan begins to ponder whether to give Federal Reserve chairman Mr Paul Volcker a third term at the head of the US central bank, is whether the markets are right in assuming that he is so good as to be indispensable.

The markets are, after all, as prone to overshoot on central banking reputations as on currencies. The imperturbable Dr Arthur Burns, for example, with his comforting pipe and bedside manner with Congressional committees, enjoyed starry-eyed respect on Wall Street for longer than his track record probably justified. Mr Volcker, with his perennial cigar and commanding presence, is built of sterner stuff. But even if it were true, as his supporters claim, that he alone provided an anchor for the world economy in a period of severe upheavals and trade imbalances, it would not necessarily follow that a third term was desirable, assuming he wants it.

Mr Volcker's central achievement, since to took office at the dog end of President Carter's Administration, has been to cut inflation down to size both in the US and in the global economy. The means, outlined in his radical monetary package of October 1979, involved the adoption of money supply targets: interest rates were left to find their own level.

Monetary policy

The outcome was a threefold increase in dollar interest rates that administered a powerful deflationary shock to the world economy and imposed swingeing additional debt servicing costs on Third World countries. No doubt the task of expunging inflation from the world economy in the aftermath of the second oil price shock could not have been achieved without some considerable pain.

But economic historians may well conclude, with the benefit of hindsight, that the agony was needlessly protracted.

To his great credit Mr Volcker recognised the need for an abrupt change of stance when Mexico found it was unable to meet its obligations in August 1982. And by any historical standard the Fed's role in the management of the resulting financial crisis was impressive. A less surefooted response might well have precipitated chaos through the world banking system.

Banking experience

Mr Volcker still has his critics, as any head of the Federal Reserve Board is bound to expect. Some accuse him of a morbid fear of inflation which is wholly inappropriate when the US economy faces the threat of slower growth as the budget and trade deficits are brought under control. Others attack his determined opposition to an outright dash for financial liberalisation. But in a period of extreme economic and financial uncertainty there is much to be said for the conservative values of a tried and tested central banker. If it comes to a dollar free-fall, with the markets despairing of the Reagan Administration's readiness to curb the budget deficit; Mr Volcker will almost certainly be the right man in the right place at the right time.

The clinching argument in favour of having Mr Volcker stay for a third term, however, is that the combined central banking experience of the other members of the Federal Reserve Board is extremely limited; and few of the outside candidates for the job have the political clout, the market credibility and the knowledge of prudential banking controls that are badly needed in an exceptionally difficult period for US monetary policy and the international banking system. It is not entirely a backhanded compliment to say that Mr Volcker is a giant among pygmies. Even his critics should acknowledge that when times are tough, there is a powerful case for the devil you know. Mr Volcker is a survivor who surely deserves the job.

East-West arms control talks have, says **David Marsh** in Bonn, rekindled on both sides of the Berlin Wall a long-cherished vision of reunification

THE TWO GERMANYS

A half open question

THE "German question" is once again troubling the German soul — and threatening to send a tremor across the political map of Europe.

Four decades after the country's post-war cleavage, the tangle of contradictory emotions —hope, fear, suspicion and intrigue—which both links and separates East and West Germany is again coming to the fore in the Federal Republic.

West Germany has become all too used to the trauma of being Western Europe's front-line state. But the present thaw in East-West relations, centred on the prospects of an accord between the Soviet Union and the US on removing medium-range nuclear missiles from Europe, is paradoxically exposing the Federal Republic to a new and crueller dilemma about its place in the world.

The painful wrangling in the centre-right coalition of Chancellor Helmut Kohl over Mr Mikhail Gorbachev's proposals for a "double-zero" option on medium-range missiles is just the latest and most potent example.

The Federal Republic has been suspended since the 1950s in a force field between its obligations towards the European Community (especially France) and Nato, and towards the eastern half of a divided country still regarded officially as a single German nation.

For a long time, with the East-West divide firmly entrenched, the westwards pull was ambiguous.

Now, as the superpower relationship shifts in response to the reforms and disarmament overtures of Mr Gorbachev, West Germany is thinking with renewed intensity about the state's long-shelved commitment in its 1949 constitutional (by definition, provisional) to seek reunification of the German nation.

And the Federal Republic is asking itself whether it can manage to forge a new relationship with Eastern Europe without at the same time diluting its security ties with the US and the rest of Nato.

The question increasingly preoccupying chancelleries in both East and West is not so much the almost traditional one —raised in its latest form four or five years ago during the resurgence of West Germany's peace movement—of whether the country is drifting slowly into neutralism. The central issue is more subtle. It is that Bonn, made more self-assertive by the country's economic strength and by the coming to power of politicians (like Mr Kohl) not involved in the war, is looking more clearly than in the past at safeguarding its strategic interests.

It is finding that, to some extent, they overlap with those of its eastern neighbours. And they are not necessarily always the same as those pursued by the rest of the Western alliance.

There is a shift away from the idealistic goal of European federalism, forged during the Adenauer years, and from the view of former Chancellor Helmut Schmidt that Bonn could play a stronger economic and strategic role on the world stage.

A note of going it alone — not aggressive, but curiously passive and introspective — has crept into Bonn's international relations, for instance over steering the world economy or restructuring the EC.

Mr Otto Lambsdorf, former Economics Minister, now economics spokesman for the liberal Free Democratic Party and one who has fuelled the reunification debate, says: "We have developed to be a very average country . . . We have come to a very provincial level, and that is what many of our friends should like us to be. We have dull government, we do not have an exciting Chancellor—but it gets results.

According to a senior Foreign Ministry official: "During the 1950s, the 1960s and the 1970s, we could believe in a united Europe. Now the EC has gone on the path of enlargement. It is not a coincidence that we are looking more to the East."

A critical view of the EC for no longer paying attention to the goal of German unity comes from Mr Alfred Dregger, chairman of the CDU/CSU conservative parliamentary grouping and an advocate of a policy link between the disarmament proposals and the reunification aim.

"We are dreaming now of monetary union, of the internal market. That is all very moving, but it is not enough," he says.

But the gazing eastwards by no means comes only from the right. Mr Willy Brandt, former Social Democratic Party (SPD) Chancellor, who pioneered West Germany's normalisation of relations with its eastern neighbours during the 1970s, talks of moving towards reunification more in terms of a German confederation.

The SPD also attracted the ire of the conservatives—and of some of West Germany's allies—last year by "negotiating" a nuclear-free zone with East Germany's Communist leadership which, if it were ever to come into force, would damage West Germany's security links with the rest of Nato.

Mr Dregger is the chief spokesman for many on the right who believe that the "double-zero" proposals—to remove all missiles in range of 500 to 5,500 kilometres—would concentrate on Germany a unique threat of both conventional and nuclear conflict.

The Federal Republic, East Germany and Czechoslovakia would be the only areas within range of the shorter-range battlefield nuclear missiles remaining after a medium-range accord—amounting to a "singling out" of the Germans, to use a phrase now in vogue in Bonn.

The US, Britain and France, to varying degrees, have made clear that they back the "double-zero" option; and West German voters in two state elections earlier this month delivered a rebuff to Mr Kohl's Christian Democratic Union (CDU) for wavering over the deal.

So Mr Kohl, due to make a statement on June 4, is likely to have little choice but to fall into line. His only hope of influencing matters will be to insist on the need for further talks to reduce the Soviet Union's superiority in shorter-range nuclear missiles and conventional forces.

But the mutual irritation within Nato raised by the West German stance may leave lasting traces. Mr Hans-Dietrich Genscher, the Foreign Minister, warned at the end of last week of impending "self-isolation" of the Federal Republic within the Western alliance. Much will depend on how the West Germans choose to continue the separate but interlocking debate on the question of links with East Germany.

Whether or not politicians decide to pursue the issue of reunification, there is no doubt that it still has considerable emotional appeal for West Germans. Opinion polls show that a large majority of the population favours the goal in principle, but that only a small minority, many fewer than in the 1950s, believes in its feasibility.

'The EC has gone on the path of enlargement. It is no coincidence that we are looking to the East'

Any move by the Federal Republic along this road is barred by the Bonn Government's condition—echoing the line laid down by Adenauer—that the only basis for reunification would be free elections in the whole of Germany. As if taken aback by the vigor of the debate which he himself has helped foster, Mr Kohl, in Paris on Friday went out of his way to dampen reunification speculation and said the Federal Republic would not "fall between the stools" of East and West.

Additionally, the objective is fundamentally countered by the East German leadership, which, has set as an equal and opposite goal the carving out of, an independent state firmly anchored within the Communist alliance.

Reunification is in theory inimical to the Soviet Union. But that has not stopped rumours of Moscow's support for the idea of eventual reunification—as a diplomatic card to capitalise on West Germany's wish for closer ties with the East and to unsettle the Western allies, especially France.

As always, the uncertainties in the East-West power game converge on Berlin. The former capital of Bismarck's and Hitler's empire is now celebrating its 750th anniversary with separate festivities in its eastern and western halves.

Mr Gorbachev, during his visit to East Berlin later this week for a Warsaw Pact summit, is expected to refine further the double zero proposals—giving him a further chance to exert more discreet pressure on the Bonn Government.

On the Western side, a symbolic series of visits by the heads of state of the three allies which guarantee West Berlin's security underlines the West's solidarity with the city. Queen Elizabeth travels to West Berlin today, a fortnight after President Mitterrand, with President Reagan due on June 12.

But this does not lessen the long-term uncertainty about the fate of the West's bastion on East German territory.

A bid led by Mr Eberhard Diepgen, the conservative governing mayor of West Berlin, with the support of Mr Kohl, to try to inject new movement into West Berlin's relationship with the East by exchanging high-level visits has broken down amid much acrimony. This has been to the relief of the four victorious war-time powers, which formally rule the city and which are reluctant to see any change in the city's delicate status.

As part of the 750th anniversary celebrations, Mr Diepgen originally made clear his willingness to accept an invitation to attend the official anniversary ceremony in East Berlin in October. Mr Erich Honecker, the East German leader, was also invited to come to April's West Berlin ceremony in what would have been the first visit to the western half of the city by an East German head of government.

Both plans have fallen through. The Diepgen visit was called off earlier this month after East Berlin protested about "slanderous insults" made by Mr Kohl, who had reaffirmed in best tub-thumping manner that West Germany could never come to terms with the "wall and barbed wire."

The episode underlined a longstanding and fatal drawback in the Bonn Government's approach to East Germany.

The official Bonn line is to distinguish between the East German regime and the people it maintains within the country's guarded borders. So remarks intended to appeal to the East German "compatriots" — assumed to be longing for togetherness with the West — are often at the same time highly defamatory to the Communist leadership, and therefore can set back the cause of togetherness they are aiming to foster.

An apparently more constructive idea for building bridges has been put forward by the SPD. This would be for West Germany to give full legal recognition to the German Democratic Republic—the only way, says Mr Guenter Gaus, West Germany's former Permanent representative in East Berlin under Chancellor Schmidt, to open up the way for democracy.

West Germany has, however, always shrunk from giving full legitimacy to the East German state.

While a breakthrough on the legal or diplomatic paths is blocked, Bonn is trying to collaborate increasingly with the East—not only through already strong trade and financial links but also by stepping up co-operation in areas like the environment, electricity supplies and transport.

Nonetheless, the motives are contradictory: Bonn wants to stress "togetherness," East Berlin, independence — contradictions which will continue to dog the German chimera for a good many years to come.

Men and Matters

Change of scene

And now for something completely different.

Bemused with slogans, and pole-axed with polls, this column turns its attention to the scene of another, confused election.

Elections do not come much dearer than they do in Italy. The financial newspaper Il Sole 24 Ore yesterday produced an estimate of the costs of the June 14 election of L18,000bn (£9bn) which breaks down as follows:

L17,000bn on vote-winning expenditure legislation rushed through the parliament before its dissolution, L306m on administering the polls, L30m for damage to buildings, L95m on protecting voting centres with 57,000 troops, L229m on blocking roads, L320m for candidates' expenses, L20m for discount rail tickets, L60m for parties' publicity expenses, L10m to cover civil servants' absences in support of their parties, and L10m for legal challenges to the results.

The figures are on the whole more interesting than the campaign, in which the biggest splash so far has been made by the Pope.

Italians are not a greatly moralising people, despite their Catholic tradition. Homilies from the church, of course, are always expected although they are rarely as controversial as the Pope's recent endorsement of the exhortations by his Italian bishops for a strong catholic turnout in the general election. Only the church appears surprised that its statements are seen as coded backing for the Christian Democrat party.

Trading insults

Altogether more unusual has been the attack on immorality in industry and finance delivered by Mr Cesare Romiti, the square-jawed boss at Gianni Agnelli's Fiat. Stressing the need for ethics in business, Romiti criticised those looking for "short cuts" to success and those who, under the guise of "financial engineering" may be guilty of "corruption and sometimes of illegality."

At whom was the gun being pointed, it was asked. Not least by Mr Raul Gardini, the Ferruzzi chief who has little love for either Romiti or Fiat. He strolled out of an FT conference in Milan last Monday and demanded that Romiti "name names." Mr Romiti replied that one had merely to "read newspapers over the past two years," to understand—an apparent allusion to the string of takeovers by Carlo de Benedetti, by Ferruzzi itself and by Montedison.

Over the weekend, the hard-nosed Fiat man opened up a little more and repeated the Agnelli's familiar complaints about Mario Schimberni, the Montedison boss, launching takeover bids without first asking permission of minority shareholders such as Fiat. Mr De Benedetti, meanwhile, had been raising too much money on the stock market.

There is no obvious idiomatic equivalent in Italian of the "pot calling the kettle black" so Mr Romiti's targets have been silent on Fiat's own talent for financial ingenuity. But there are few better examples than the Agnelli purchase last year of a $1.1bn chunk of the Fiat shares owned by Libya with convertible bonds financed by the state bank, Mediobanca, costing an average interest rate of 2.6 per cent over 11 years.

"What a Bank Holiday—daren't go out because of opinion pollsters and nothing on television except politicians"

Caretaker hospitality

Meanwhile, the forthcoming visit of Ronald and Nancy Reagan is causing quite a flurry in the world of Italian socialites and business leaders anxious to be seen rubbing shoulders with America's "first couple."

As caretaker Prime Minister, the 79-year-old Amintore Fanfani is nominally the President's host, but two of Mr Reagan's formal engagements during his June 3-12 summit visit will be hosted by industrialists. On June 10 Mr Carlo de Benedetti will preside over a prestige dinner at Milan's 14th century Castello Sforzesco featuring 90 Italian and 60 American members of the "private sector initiative." The same assortment of business leaders will regroup for lunch the next day at the Palazzo Grassi museum in Venice where the host will be Fiat chairman Mr Gianni Agnelli.

Among the most excited Italian society ladies awaiting the Reagan visit will be 67-year-old Maria Pia Fanfani, the prime minister's fashion-conscious wife with a taste for jetting around third world countries doing good deeds. At a reception in Milan last week for one of her numerous self-publicising books "Maria Pia" (as she is known to her friends in the fashion world) screamed across the room to one American fashion journalist "I'll be in Venice, at the summit. I'll be there." Her embarrassed friends smiled.

Lyric tragedy

Puccini, by all accounts, would not have revolved in his grave when the curtain fell on Sunday evening on the opening performance of Madame Butterfly at the Rome Opera House. Bizet, however, may still be spinning just at the recollection of the several performances of his Carmen which were staged in January without a chorus.

This "castrated Carmen" as one critic called it was by no means the nadir of one of the most terrible seasons in the history of opera in Rome. Union troubles, poor administration and just plain bad luck have meant that the odd trouble-free production which started on time with the cast as published, such as Madame Butterfly on Sunday, was the exception rather than the rule.

Individual performances have sometimes failed to rise to the occasion — the luckless tenor in Don Pasquale was indecorously whistled off the stage—while those, which promised much were struck by sudden illness. The first two performances of Rossini's Italian in Algiers were cancelled because the male lead fell ill without an understudy. Later, the operatic Macbeth was struck by the sort of bad luck which is supposed to strike only the theatrical version.

The great Shirley Verrett was too ill to appear on opening night and Ghena Dimitrova was drafted up from the San Carlo in Naples to keep faith with the patrons. Miss Verrett returned too quickly, lost her soprano mid-way and, in the absence of an understudy, the musical director had a row with the stalls from the conductor's rostrum.

Observer

At war over Irish neutrality

THE TIREDEST joke in Ireland this month is that the Single European Act is something to do with continental sex for the unmarried and that is why the Church is against it.

In fact, the Roman Catholic church has declined to advise *people on how to vote in* today's referendum on the act, but many of its members have launched themselves into the "no" campaign with leaflets saying things like: "In the tragic event of a yes vote, abortion and many other evils seen as social rights in Europe could be enforced in Ireland."

At least this undermines complaints that the European Community and its Single Act are too boring to most people to make for a lively political debate.

It has, however, exasperated most of Ireland's senior politicians who are desperately anxious that today's vote should not only endorse the act — which only Ireland out of the EC's 12 members has so far failed to ratify — but should also sound an unequivocal restatement of Ireland's commitment to the Community.

Their hopes were buoyed by an opinion poll published in the Irish Times last week showing those in favour well ahead, by 40 per cent to 21 per cent. But a hefty 39 per cent remain undecided.

The referendum became necessary when the Irish supreme court ruled by a 3—2 majority last month that the foreign policy aspects of the act — which commits member states to try to formulate a European foreign policy — went against the ultimate right of the Irish people to decide national policy, enshrined in *the republic's constitution.*

This effectively invalidated the approval of the act by the Irish Parliament last December and raised doubts over other international commitments made by parliament, such as the Anglo-Irish agreement of 1985 and even Ireland's membership of the United Nations. The latter case is even more extreme: Dublin is bound to abide by Security Council decisions it may have had no part in arriving at.

While these implications will have to be dealt with in due course, the immediate priority was to amend the constitution to approve the act — hence the referendum.

It has sparked a many-sided debate which has amounted to a wide-ranging assessment of Ireland's membership of the EC and its future prospects within the Community.

Ireland joined the European Community in 1973 at the same time as Britain and Denmark. The two main political parties, Fianna Fail and Fine Gael, were enthusiastic and a referendum returned a majority in favour of more than 80 per cent. This did much to foster an image Irish leaders like to cherish of the Irish people as "good Europeans."

Membership was seen as an opportunity to move out from under the shadow of Britain, the former colonial ruler, into a group where Dublin had an influence out of all proportion *to its size. There were also* hopes that the partition of Ireland and the problems of Northern Ireland might be eased by both parts of the island sharing membership.

Economically, joining the Community had its biggest effect on agriculture. Ireland depends on farming to a greater

Ireland votes today on the Single European Act. Hugh Carnegy reports from Dublin

degree than any of its partners and access to a system of guaranteed prices fuelled a long-needed surge of modernisation.

Irish farming is now smarting from attempts to reform the Common Agricultural Policy. The shift back towards market imperatives is exposing weaknesses in the main dairy and beef sectors which have grown to rely heavily on EC price supports. But the farmers' organisations remain firmly in favour of full Irish commitment to the Community.

The country has also been a heavy net beneficiary of EC development funds. These amounted last year to more than I£900m, or 6 per cent of gross national product. At a time of acute budgetary *imbalances which are crippling* the economy, access to these funds is crucial.

Being in the EC has also been a key factor in attracting foreign companies, which now employ more than 80,000 and are the backbone of manufacturing and exporting.

No wonder, then, that Mr Charles Haughey, the Prime Minister, is making much of the economic importance of ratifying the Act, especially as it promises more funds for poorer regions. Irish politicians are terrified that a "no" vote would end goodwill towards Ireland within the EC and jeopardise access to the country's most important export markets, not to mention the special discretionary funds from Brussels.

But opponents of the act are unimpressed by what they scorn as "begging-bowl" attitudes. The Community, membership of which has not prevented 19 per cent unemployment in Ireland, would have to meet Ireland's objections if the act is rejected, they say. They make much of the potential threat to *government revenues from tax harmonisation* proposals in the act.

The economic argument is not their most fertile ground, though. Neutrality is.

Ireland's unique position in the EC as the sole non-member of Nato is nowhere specifically mentioned in the act. The safeguards of neutrality inserted into the act by Irish negotiators are contained in phrases which *limit discussions* on security to "political and economic aspects."

This has failed to satisfy many Irish who regard the act as a slide down a slippery slope into Nato.

Preserving neutrality remains a potent political cause. After Dublin cut its ties with Britain, neutrality became a crucial assertion of independence from its erstwhile *master*, a way of minimising continued political and military influence from London. Dublin stayed out of the Second World War principally for this reason.

In the post-war period, Ireland identified strongly with smaller nations emerging from colonial rule and played a role to this end in the United Nations in which its neutrality was, again, an important element in its independence.

Martyn Turner: Irish Times

Today, however, conditions have altered as Ireland finds itself out of step in military matters with its European partners. For some time, this has been shrugged off with an attitude summed up by one politician as, "We're neutral, but we know which side we're on."

The Fianna Fail government, in this campaign, has asserted its unequivocal commitment to neutrality and made something of the "honest broker" intermediary role that Ireland can play in Europe because of its neutral stance. But the impression remains that Irish neutrality is increasingly in need of redefinition.

Even if it is true, as Dr Garret FitzGerald, the former prime minister, says, that the single European Act "has damn all to do with neutrality," he himself complains of the strictures put on Irish leaders by what he calls "neutrality neurosis."

An example is when EC heads of state discuss disarmament issues informally, at a summit dinner. An Irish prime minister is obliged to stay silent, something Dr FitzGerald says he felt particularly awkward about after last year's Reykjavic summit between President Reagan and Mr Gorbachev.

"I saw nothing in staying silent, but I felt it was prudent unless someone should ask 'did you speak' and it would be seen as an unneutral act."

Endgames for the tactical voter

By Peter Pulzer

THERE is nothing new about the voter as chess-player. No nineteenth-century elector would have been surprised or shocked at the idea that voting was a game to be played with maximum ingenuity. Until 1918 voting was spread over a fortnight, the results in some constituencies being known before the poll opened in others. Until 1885 most constituencies returned two members: the elector could concentrate his support by "plumping," i.e. voting for one candidate only, or isolate the Radical by voting Whig and Tory, or isolate the Tory by voting Whig and Radical. Before the 1872 Ballot Act one could know the running total of the poll as it progressed.

It is only with the coming of the secret ballot, universal suffrage and strict party discipline that the decline of the voter from strategist to foot-soldier took place. But even in the heyday of party stability, as in the 1950s and 1960s, the *foot-soldier analogy* was not quite the whole picture. Politicians, journalists and academic writers tended to assume that elections were decided by a tiny band of floating voters.

The reality, as the research by David Butler and Donald *Stokes first showed*, was always more complex. The fact that the overall swing from one election to another in the 1950s and 1960s was low—it exceeded 2 per cent only once, in 1964—contributed to the illusion of stability. But the total number of people who switched from one party to another, or into and out of abstention, from one election to the next was much higher.

Between 1959 and 1964 there was a swing from Conservative to Labour of 3.4 per cent, but 35 per cent of electors underwent some change of allegiance—with the tide, against the tide, into and out of the Liberal party and abstention. Between 1966 and 1970, with a swing of *4.8 per cent, the total number* of changers was almost the same, 34 per cent.

There was therefore always a large number of electors whose loyalty was conditional and uncertain, open to persuasion on a large number of *grounds. Does that mean that* the British elector is no more volatile today than 25 years ago?

No: volatility has increased in several respects. In the first place there are dramatically fewer ultra-loyal foot-soldiers. In 1964 40 per cent of electors declared themselves as "very strongly" affiliated to their party; in 1983 it was 23 per cent. By-election upsets have become more frequent and spectacular. Voting intentions as recorded by opinion polls have fluctuated more violently. The Alliance, which touched 50 per cent at the end of 1981, after Shirley Williams's Crosby by-election victory, embarked on the general election campaign, *18 months later*, at 18 per cent. The total number of people actually changing their vote compared with the previous election may not have risen, but those who are prepared to change, and are open to persuasion, are vastly more *numerous.*

The decline of partisan loyalty would not by itself be an encouragement to tactical voting if the major party duopoly were still intact. What gives the question of tactics its present salience is the emergence of the Alliance and, in Scotland and Wales, of the nationalist parties.

The preconditions for the rise of tactical considerations are twofold: the existence of more than two main parties and a very wide spectrum of political *opinion, in which relatively few* electors firmly identify with their preferred party and a great many have an ideologically eclectic range of views. What has happened is a shift in the relative strengths of Affirmers—those who would *vote for their party if it put up* a pig—and the Choosers—those who hesitate before jumping.

Affirmers are a bad prospect for tactical salesmen. Voting is for them a declaration of loyalty. In so far as it has a utilitarian justification, it lies in maximising the popular vote for one's party, even though one lives in a hopeless or ultra-safe seat. To the Affirmer the immediate outcome in a particular constituency is secondary to ensuring the long-term national viability of his party.

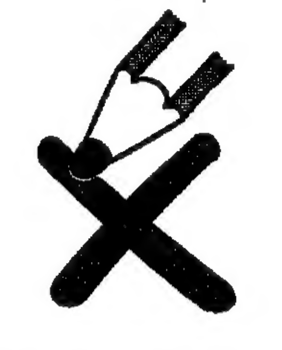
The Chooser is not necessarily a more rational or better informed person than the Affirmer. He is merely less certain in his attachment. His attitudes cover a range of possible allegiances, say from moderate Labour to SDP or from Tory *wet to Liberal. He is the ideal* prospect for the tactical salesman.

During the Greenwich by-election Conservative canvassers reported that many of their supporters intended to vote SDP to stop the dreaded Deirdre Wood, but would return to the fold at the general election. Here was the Greenwich Tory *as chess-player*, ordering his or her move according to changing circumstances. Closer examination revealed more complex motives. Of those who stayed loyal to the doomed Conservative candidate three times as many named defence as an important issue as did switchers to the SDP. Of those who switched 38 *per cent* named education and 35 per cent health as important, compared with 28 and 24 per cent respectively among loyalists.

Affirmers and Choosers are therefore not merely individuals who make different decisions about the best move in the game. They are different kinds of people. They are more mobile electorally because they are more mobile ideologically.

Tactical considerations alone *do not explain the collapse of* the Labour vote in the south to the benefit of the Alliance. There was, after all, a time, not so very long ago, when Labour got a third of the vote in Richmond and the Isle of Wight, out-polling the Liberals, and when Bath, Cheltenham and Yeovil were Conservative-Labour marginals. Diminished *loyalty has to precede electoral* mobility. The current Tactical Voting '87 Campaign has to assume not merely that electoral choice is motivated at least as much by dislike of the opponent as by love of one's own party, as it has always done, but that love, as currently diluted, is transferable on a large scale.

If I am right, then whether it succeeds will depend as much on issue perception as on vague graphs pushed through people's letter-boxes. Prima facie the Alliance has most to gain from tactical voting, having come



second last time in 309 out of the 633 mainland constituencies. But what will the Alliance supporter do in a Conservative-Labour marginal? We know that among current Alliance supporters 31 per cent think the Conservatives have the best defence policy, against 10 per cent for Labour, and that 61 per cent prefer Labour's policies on jobs to 5 per cent for the Conservatives. That could be a vital clue. We shall see.

The author is Gladstone Professor of Government and Public Administration at Oxford and a Fellow of All Souls.

Letters to the Editor

Exchequer to lose on tin

From Sir Adam Ridley

Sir,—May I add two comments to Dr Hermann's penetrating and authoritative article of May 7 on the Tin Council and the legal confusion and litigation which its collapse has provoked.

There is a further consideration of economic costs and benefits to note, which strengthens Dr Hermann's arguments that the UK's obstructive attitude to the ITC's creditors is not in the national interest. There is a simple calculation which the Government should make when comparing the implications of settling its share of the creditors claims with successfully resisting legal pressure to do so, as it is now trying. If the governments have to settle, the UK's share of the total debts to be paid would only be about 4 per cent. But if there is no settlement, then the brokers and banks involved will be able to set off much of their losses against UK Corporation Tax. The loss borne by the Exchequer would then amount to some 40 per cent of the total debts attributable to the ITC. In other words the Government, not to mention the national economy, loses on a very large scale if the present strategy of avoiding a settlement is followed successfully—by about ten times more than if it settles. The Treasury has not denied this estimate when offered the chance to do so.

Given the highly unsatisfactory situation and the many important areas of legal confusion left by the Tin Council's collapse, it is timely for Edinburgh University to be seeking funds to appoint a professor of international law who can study matters such as these. Any serious bank should consider supporting such an initiative, as Dr Hermann suggests.

(Sir) Adam Ridley,
Hambros Bank,
41 Bishopsgate, EC2.

Running a risk

From Professor G. Allen.

Sir,—Your concern *(May 20)* over the absence of compassion in the language of the Tory manifesto errs in its moderation. I find the manifesto's attitude nauseating and wonder if comfortably placed Conservatives ever wonder "There, but for the grace of God . . . ." But, equally I have no desire to see our government handed over to the unilateralists.

In its meanmindedness over social spending the Conservative Party is running a terrible risk, which no prudent non-Socialist politician should accept, of giving Mr Kinnock the key to No. 10. I just cannot understand how the party which claims to defend the realm is prepared to take such a chance and cannot apparently sense that there are great individual hardships and underfunding in education and health which, unless acknowledged immediately as a priority for the next Parliament, could turn sufficient floating voters into an overall Labour victory. I expect a Conservative electoral strategy to be prudent and not go for the gamble of what at best will be a close run thing.

With so much international funds, largely Japanese, now trying to find a safe haven from the dollar, there cannot possibly be any significant inflationary or interest rate risks in borrowing to finance an extra annual £2bn for social expenditures — and they are dwarfed by the chance that insufficient voters will give due weight to the hazards of Socialist defence policy.

(Professor) George Allen,
West Woodlands,
Newton Tracey,
Barnstaple, Devon.

The Japanese at Venice

From Mr David Howell

Sir,—Mr Martin Feldstein's views (May 20) on the future trend of exchange rates are well known and he is probably right.

But Mr Feldstein's suggestions as to what might be said and done at the forthcoming Venice economic summit to calm the continuing currency turmoil fall well below the level of what is required. Most of the undertakings he asks the heads of state to make have already been given in some form and will no doubt be repeated. Few of them will have much effect in restoring world confidence and momentum.

A far more hopeful line was mentioned in your editorial (May 11) on ideas for recycling Japan's vast trade surplus. When he met with President Reagan on May 1, Mr Nakasone spoke of an additional $30bn over three years which Japan might channel to indebted developing countries.

Since then, as you report, Dr Saburo Okita has proposed in Tokyo that the figure should be more like $125bn, possibly spread over five years, and administered in part through the World Bank.

Evidence at Venice that these were serious plans, properly worked out, would *of itself* immediately start to restore confidence, begin the process of recovery from the debt crisis and raise the prospects of increasing dollar exports and easing the trade imbalance.

The Japanese need to arrive at Venice with something on the scale of a Marshall Plan to meet the drifting and deteriorating situation. By chance, at the last Venice summit in 1980—which I attended with the Prime Minister—Dr Okita was the sole ministerial representative of the Japanese, who were then in the middle of a General Election.

I hope they will send him again—and that this time he and his colleagues will have a full mandate to put forward firm proposals on the scale which events now urgently demand.

David Howell,
Dolphin House,
Chertsey Street,
Guildford, Surrey.

A squeeze in potatoes

From Mr N. McLeod

Sir,—Trading on the London Potato Futures Market has now ceased for the 1986 crop and farmers and merchants can reflect on the effectiveness of the futures market to follow the physical potato market. It is interesting to note that the November position finished with a premium of about £15 over the Potato Marketing Board average for that week, in February there was a discount of £6, whereas in April the premium was £60 and in May £20. It can be seen from these figures that a major distortion took place in April. This is very surprising when one considers that there was an AFBD inquiry and an investigation by the Bank of England who both found no evidence of a squeeze. Yet for a distortion of £40 to have taken place there could only have been a squeeze, because that is the only cause of distortions on futures markets.

It is therefore essential that a major government inquiry is instigated immediately to discover the true facts from everyone involved. The farming industry must fight for a change in the rules of the market and if the management committee cannot supervise the market properly, then an advisory committee drawn from the potato trade should be formed to guide them.

Several thousand tonnes of Dutch potatoes have been unnecessarily imported just to satisfy speculators who got it wrong. As several of these potatoes have gone to small grading stations and farms, there must be a very real danger that the disease rhizomania is now present on our land with catastrophic implications for Beresfords, British Sugar and the farming industry. What right does a small group of City people have to destroy the potato trade and the sugar industry for their personal gain? It is essential that this kind of behaviour is stamped out now, because if it is not, then City scandals will grow even greater and eventually the City of London will suffer the consequences. The time to act is now; with a very heavy hammer.

Neil C. McLeod,
Longham Hall,
Longham,
East Dereham,
Norfolk.

Regularise the grey market

From the Editor,
The Shareholder.

Sir,—There has been a good deal of criticism about private investors "making a fast buck" by selling their Rolls-Royce shares immediately for a quick profit. But given the ludicrously *small* allocations to small shareholders, what other choice did many have? Even at the end of the first day of dealings the minimum allocation was worth a bare £220, a consideration so paltry as to be more of a nuisance to hang on to than anything else, particularly since the costs of selling small amounts of shares have risen since Big Bang.

Were any investor given a small allocation in a new issue to want to buy more, nothing can be done until the first day of dealings proper, by which time it is often too late. Yet in the gilts market, dealers can trade in "when issued" stock once the price has been announced. Why should such a practice not become commonplace in the equity market too? There was until recently a thriving "grey market" in *shares but the government*, perhaps perceiving that many small investors wanted to sell their shares, made clear its disapproval. This market is now restricted to larger, professional investors.

Surely there is a case to be made for regularising the grey market? Investors who are going to sell out immediately may still be numerous, but it *would* then give those shareholders who want to increase their holdings in advance of regular trading a chance to amass enough shares to make a worthwhile holding.

The government may profess its radicalism with regard to the stock market. But it is still selling shares in the time-honoured manner, with little or no regard for the fact that it has generated a considerable appetite for new issues outside the usual institutional clientele. Can't somebody come up with a better way of handling privatisation sales?

Simon Rose,
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SW18.

FINANCIAL TIMES
Tuesday May 26 1987

Peter Bruce in Tokyo reports on Nakasone's tactics for next month's summit

Japan's last card before Venice

MR YASUHIRO NAKASONE, the Japanese Prime Minister, this week begins what may be his last chance in office finally to conquer American and European hostility to Japan's trade practices and surpluses around the world.

In what amounts to a combined charm and action offensive, Tokyo is preparing to confront its major trading partners with a fistful of political, fiscal and trade initiatives designed to take the heat off Japan at the summit of the West's seven major economic powers in Venice in two weeks' time.

As a start, the Government plans to bring a formal end in the next few days to negotiations with the US over Japanese participation in the Strategic Defence Initiative (SDI) research programme. Bonn, London and Rome have long since joined the effort and Japan, as Washington's major military ally in Asia, has been noticably absent.

Next week, senior Japanese Finance Ministry officials are due to travel to Washington and London carrying updated commitments to liberalising the country's highly regulated financial markets. They are expected to finalise arrangements allowing some foreign firms to begin offering limited discretionary investment services in Japan and to detail new plans to involve foreign companies more in underwriting Japanese Government bonds.

The Japanese team is also likely to use these regular consultations to promise faster action on opening up the Tokyo Stock Exchange to foreign brokers and to point out the Government's efforts in the past few weeks to talk down short-term interest rates and so help the dollar to strengthen.

But for Mr Nakasone, the acid test in Venice will be the reception given to an emergency economic package – a supplementary budget – worth about Y5,000bn ($35bn) that his Cabinet should formally adopt on Friday after a final negotiation on its make-up today.

Mr Nakasone promised to do something to reflate the dormant Japanese domestic economy when he met President Ronald Reagan in Washington at the end of March and Mr George Shultz, the US Secretary of State, was probably being more than just a little impish when he wrote to his Japanese opposite number last week to say how much he was looking forward to hearing details of the package when they meet in Venice.

The supplementary budget, due to be put to a special parliamentary session later in the summer, will follow the final approval last week of an austerity budget for fiscal 1987. Mr Nakasone damaged his political profile during the budget debate by fighting in vain for the introduction of a sales tax.

The sales tax was to have been part of a bigger three-year reform programme, which would have included balancing income and corporate tax cuts worth about Y4,900bn. Now, however, the planned supplementary budget will contain only tax cuts – possibly worth Y1,300bn and mostly in income tax reductions which would have been part of the failed reform.

The rest of the Y5,000bn is, according to widespread speculation, going to be made up by bringing forward and increasing public works spending and by steps to encourage greater private sector investment. The state may agree to contribute more than its traditional 5 per cent to joint private-public ventures and to finance Y150bn in home mortgage write-offs, but the economic or revenue effects of these steps are impossible to measure.


Mr Yasuhiro Nakasone

Even if Mr Nakasone's fellow heads of government and state are impressed by all this in Venice, however, the package appears to be heading for a poor reception in Tokyo.

"At least it's better than last year," was the best one senior US economist could muster yesterday. Last November, the Nakasone Government put a Y3,600bn supplementary budget to the Diet and "only 4 per cent was real." he said.

Supplementary budgets and the "front loading" of public works contracts are common in Japan and new money involved is often difficult to separate from funds already budgeted and which are merely being re-manipulated. This time, however, there does appear to be about Y1,700bn in extra public works spending available which, combined with the tax cut, means that at least Y3,000bn of the Y5,000bn will be "real."

Even that has to be qualified however. The tax cut may be neutralised next April when the Government intends, if not to try again to introduce a sales tax, then at least to try to raise some indirect taxes. The tax cut may have to be implemented very quickly for it to have any effect at all.

It is also not clear yet how the supplementary budget is going to be financed. Higher-than-expected tax revenues from last year may be carried forward and the proceeds from selling off stock in Nippon Telegraph and Telephone (NTT) might also be tapped.

Mr Nakasone has a few other sweeteners to offer in Venice but he may be careful not to sell them too hard. Tokyo is, for example, touting a $30bn scheme – also promised in Washington – to recycle some of its trade surplus to indebted Third World countries. But on closer examination it transpires that $10bn is part of an older Finance Ministry plan to fund a World Bank scheme and that almost half the remaining $20bn involves the as-yet unsecured participation of the private sector.

Barring a political miracle, Venice will be Mr Nakasone's last summit among the so-called Group of Seven. His term of office as leader of Japan's ruling Liberal Democratic Party, which has already been extended, expires at the end of October and he cannot openly campaign for re-election.

Weekend polls show some 80 per cent of Japanese voters do not want him to continue in office anyway, which is a long way for a man so apparently well regarded in the West to have fallen.

Even if he were to score points in Venice – perhaps by persuading Mr Reagan to lift his 100 per cent penalty tarifs on imported Japanese electronics goods early – Mr Nakasone's electorate appears to have finally had enough austerity.

Issues not an issue in run-up to Italian elections

FROM Italy, which like the UK is in the midst of an electoral battle, British newspaper comments at the start of Mrs Margaret Thatcher's bid for a third term as Prime Minister seemed breathtakingly confident in their assumptions. Opinion polls, the recent local elections and journalists' own "sense" of public opinion all led, quite reasonably, to predictions of a Thatcher victory.

By contrast in Italy, which has never known the turbulent changes in electoral mood which occasionally upset British election forecasts, no one has a clue about the likely outcome of the election on June 14.

John Wyles in Rome explains why Italy and the UK are polls apart

Polls can offer only the vaguest guide and avoid trying to predict voting intentions because of the proliferation of parties and regional variations in allegiances.

Nor do Italian newspapers and television carry much feedback from "piazza", the press being more interested in purveying than receiving opinions.

The smart money in Italy, as always, is on their being very little change in the distribution of votes between the 10 main parties which made up the last parliament. But not even smart money tells you much because even a small change in the share-out – say, 2 percentage points between the Christian Democrats and the Socialists – could have a disproportionately huge political impact on the leadership and composition of the next government.

In the three weeks since the Italian parliament was dissolved, the rhetorical gunfire of party battle has not aimed at anything as palpable as an issue. Rather, the main, indeed, the only real preoccupation of the politicians is the shape of the government coalition after June 14.

While making for a tedious campaign, the obsession is understandable because the perfectly proportional Italian system does not allow voters to choose governments: the profusion of parties must do that after an election. The Christian Democrats flirted with the idea of making the electoral system an issue by tentatively proposing changes which would enable voters to choose their preferred coalition as well. A wave of derision from the other parties swept the idea back on to the shelf.

The oddest paradox about current politics in Britain and Italy, is that electoral reform in both countries is tilting at rather opposite objectives.

In Britain, there is a swell of opinion, represented by the Liberal-Social Democrat Alliance, in favour of a proportional representation system which would remove the "unfair" distortions of simple majorities. In Italy most of the reformers, who include 200 parliamentarians, would bring in single constituencies electing representatives on a majority basis.

Those Italians most seriously gripped by the need for electoral reform tend to favour the French system, which eliminates all but the two front runners in the first round unless the leading candidate has an absolute majority. The UK model is thought a little too crudely unrepresentative, although it would carry the Italian reformers even closer to their objective of fewer parties and fewer changes of government.

Indeed, perhaps too close for comfort, since one academic study of the 1979 Italian election concluded that if it had taken place under the British system, only two and a bit parties (the South Tyrol Volkspartei) would have survived. The two would have been the Christian Democrats and the Communists, although one or two other parties might have won skeletal representation if they had forged electoral alliances.

Fear that the Christian Democrats and Communists might eventually impose a new electoral system in the interest of winnowing down the number of parties, is one reason why Bettino Craxi, the Socialist Party leader, is leading the pack from the squeezed centre with bloodcurdling warnings of a renaissant "compromesso storico" between these two numerically dominant parties.

But it ought, perhaps, to occur to him and the other party leaders that some voters may also be attracted and interested by information as to what the parties think the next Italian government ought to be doing to cope with a soaring budget deficit, rising unemployment, declining trading competitivity and a south of the country still receding into economic backwardness. A few answers might even make an election campaign.

THE LEX COLUMN

Participation in the black hole

Like perpetual motion, the problem of conserving the equity content of bank balance sheets is a venerable chestnut that orthodox science has declared impossible to crack. The principle of financial entropy declares that, other things being equal, banks will tend to fritter away their equity as their loan books expand, as general provisions cool into specific, and reserve strengthening is succeeded by writing off assets to absolute zero.

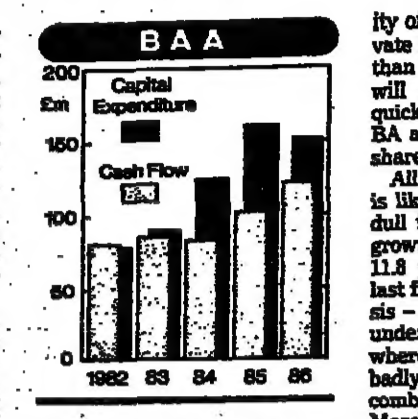
Facing up to the hidden discount in its asset base is good for a bank's soul, and can be good for the share price, but only for those banks which have enough capital to absorb the shock. And even for them, the exercise cannot be indefinitely repeated unless the capital base is rebuilt, between purgations, out of retained earnings and raids on the capital markets.

For a while it seemed possible to get by with forms of near equity, such as perpetual floating rate notes. But even the most generous criteria of capital adequacy, opened up by bank regulators to include these items in "primary capital", do not in the end allow banks to stave off the moment when new equity is needed to repair the damage wrought by unsound sovereign lending. Perpetual notes having ground to a halt, the real thing – equity – is the more urgently needed.

The trouble with equity, however, is that it is hardest to get when it is most wanting. And the dilution resulting from a significant issue of ordinary shares is apt to weigh on the share price for years to come. What is needed, for banks trading below book value, is a device for replacing eroded capital with equity, while avoiding the normal dilution.

In parts of the financial universe where the preservation of control has greatest weight, such devices have not infrequently been sighted. Before the current phase of denationalisation, French banks were able to raise equity from the public without reducing government control by selling participating certificates. In the early years of the century, in Britain, it was common for family-controlled companies to gear up the family base by selling participating preferred shares.

Bringing this idea to bear on the banks might, just conceivably, dissolve the problem. According to Guardian Corporate Finance, these participating prefs could be designed to have the same dividend entitlement as existing ordinary – making them attractive to equity investors – but to have no claim on any other part of the earnings. From the ordinary shareholders' standpoint (and maybe that of the regulators) they would thus have the advantage of debt, that growth in the asset base would accrue exclusively to the ordinary shareholders.



If it all sounds too good to be true, that may be unjust but it is not wholly surprising. Such devices need to be equipped with a variety of safety mechanisms; the rights of the preferred shareholders have to be restricted in order to reserve the bulk of earnings and assets for the ordinary, while the ordinary shareholders cannot have an unfettered right to liquidate the company and take out any surplus. And then there is the distribution of value between ordinary and participating shares. Only experience, and efficient arbitrage, can determine how large a premium the national asset-backing of the ordinary shares could command; without experimental evidence, it will be hard to dispel a sense of gravity overcome by mirrors.

Airports

Assuming a happy landing for the Conservative party on June 11, the next departure in the privatisation schedule will be boarding shortly afterwards. Such is the way of these things now, that British Airports Authority shares are likely to find a receptive market. Institutions are already getting excited at the prospect of – as it is being billed – an investment in the growing airline market without the wild volatility of such as British Airways. Private investors have yet to see more than the preliminary TV ads, but will no doubt expect to make a quick turn in a stock which, unlike BA and Rolls Royce has the wider share ownership stamp of approval.

All this ignores the fact that BAA is likely to turn out to be a pretty dull investment long term. Profits growth has not been staggering – 11.8 per cent compound over the last five years on a historic cost basis – and will probably continue to underperform the market. But whereas BA's profits have been badly hit by the Libya-Chernobyl combination BAA's year to end March 1987 will show a return similar to the previous year's.

At its simplest, BAA's business is about squeezing as many passengers as it can through the terminals, and sending as many planes down the runway as possible without them running into each other. There is a limit to the crowding in terminals that passengers will bear – as Gatwick's users are beginning to discover. Overcrowded passengers behave like battery hens which are too busy pecking each other to eat, duty-free sales fall if the queues are so long that people fear missing their flight. But running an airport as close as possible to capacity is the most profitable way.

The great skill with airports, therefore, is to forecast demand years ahead in order to build and juggle both terminal and runway capacity to match. Because airline passenger numbers have been and ought to continue growing at a few percentage points a year, BAA needs to keep opening new facilities. This inevitably requires large-scale capital which should be little problem to BAA with its minimal gearing and strong cash flow, even when it starts paying dividends. But it is likely to hold back margins in the years when major new capacity comes on stream.

BAA must also work within tight regulation on pricing, facing up to a Monopolies and Mergers Commission grilling every five years. While this is generally seen to be a disadvantage, it does have the merit of encouraging efficiency. And the MMC is not all bad: if the EC does one day abolish duty-free sales inside the community, acceptance of the "single till" principle should permit BAA a compensating increase in the landing charges.

Noranda to float 15% of C$2bn forest products subsidiary

BY STEFAN WAGSTYL IN LONDON

NORANDA, the Canadian resources group, is planning the flotation next month of its forest products subsidiary. It will be the largest company ever floated in Canada, with a likely market value of more than C$2bn ($1.48bn).

The group intends to sell about 15 per cent of Noranda Forest to raise between C$300m and C$350m, the biggest Canadian offer for sale since Dome Petroleum, the US energy group, sold off part of Dome Canada, now called Encor for C$400m in 1981.

Noranda is selling assets to cut debt and to try to devolve control of its separate businesses. Mr Bill Deeks, a senior executive, says that in about two years time the group could float Noranda Metals and Minerals, its mining and energy operations, and then some time later sell shares in Noranda Manufacturing, with interests including aluminium refining.

Mr Deeks, president of Noranda Sales, the group's metal marketing company, said the strategy was the result of a large-scale reorganisation of Noranda. The company, which is controlled by the Toronto conglomerate Brascan, has been struggling in recent years through the effects of heavy debts and low commodity prices.

Noranda has filed a preliminary prospectus for the Noranda Forest issue, intending to price and float the company in the last week of June. Dominion Securities, the Toronto broker acting as lead underwriter, says 25 per cent of the stock is to be sold outside Canada. A promotional team is to visit London, Frankfurt and Zurich.

Noranda Forest is headed by Mr Adam Zimmerman, Noranda's former president. The company owns 49 per cent of MacMillan Bloedel, the big forest products company, 100 per cent of both Fraser, a New Brunswick timber and paper producer, and James Maclaren Industries of Quebec, plus 50 per cent of Northwood Pulp and Paper, based in British Columbia.

The issue follows last year's successful public offering by Noranda and its partners of shares in Hemlo Gold Mines, one of three mines in Ontario exploiting the largest gold deposit discovered in North America since the Second World War.

Gold Fields may cancel US flotation

By Stefan Wagstyl in London

CONSOLIDATED Gold Fields, the international mining group, is reconsidering plans to float off its US gold company.

Late last year, the group, which was then the subject of takeover speculation, dropped strong hints in the City of London that it might sell shares in Gold Fields Mining Corporation (GFMC), which could be worth $1bn, as early as this spring.

On Friday, the group said: "The whole question of whether we float GFMC and when we do is under consideration."

The issue has provoked a wide-ranging debate within the group about future strategy, particularly the question of whether subsidiaries should be wholly or partly-owned.

The company no longer feels under the same pressure to act quickly as it did last December when American Barrick Resources, a Canadian gold company, revealed it held 4.9 per cent of Gold Fields.

Gold Fields called in the Department of Trade and Industry to start an investigation into how American Barrick had acquired its shares, fearing the possible involvement of Anglo American, the South African combine, which indirectly holds 28 per cent of Gold Fields.

Gold Fields stock has since risen from 650p to 1106p on Friday, putting a value of £2.3bn on the group.

Gold Fields originally suggested that it might float its US company in 1988 after its third North American gold mine came into production. But last December senior executives hinted that a flotation as early as spring 1987 might be possible.

The group said yesterday that the earliest possible date was now early July. But it said that the decision whether to float at all had yet to be taken.

Some Gold Fields executives argue that the group should continue to follow the traditional policy of a mining finance house in finding and developing mines and then floating them so as to use the capital in new projects.

Warning by Bundesbank

Continued from Page 1

ing deflected into short-term measures, said it would be disastrous to fall into the temptation of a return to old stop-and-go policies.

Although Germany was not currently threatened with renewed inflation, he said: "The 'incubation period' of inflationary processes is long, uncertainly long, and the size of the resulting price rises is also uncertain."

Thus, he added, "a policy of over-plentiful money supply should not be continued without limit." Steady economic growth was only possible on the basis of stable money values.

Against the background of the slowdown in German growth, as the strong D-Mark has inhibited exports, Mr Schlesinger said an upper limit of only 2.5 per cent annually was likely for the next five or more years. This was because of the declining population, shorter working hours in industry, and increased investments in environmental protection.

Share sale planned for troubled El Al

BY JUDITH MALTZ IN TEL AVIV

SHARES in El Al, the Israeli national airline which is in temporary receivership, may be floated on local and foreign stock exchanges, in a reversal of previous government policy.

Since the airline was put into receivership in 1982, the Government has repeatedly declared itself open to offers for an outright purchase. But, in practice, considerable misgivings have persisted over relinquishing state control of the airline.

The Government appears to have changed its mind about the method of privatisation to be employed as a result of an offer received last July from Mr William Belzberg, the Canadian businessman who heads the First City Group. The offer was dismissed by the Government as too low.

The Israeli Transport Ministry had estimated El Al's value at about $800m, and insisted that any purchaser take over outstanding debt of $340m, putting a total price tag on the airline of $1.1bn. Mr Belzberg's offer amounted to only $316m free of debt, barely a quarter of the estimate.

Mr Ze'ev Refuah, head of the Israeli Government Companies Authority, said that after years of unsuccessful attempts to sell El Al to private investors, he had now concluded that a share sale to the public would provide the best return for the state.

No decision has been taken on the timetable of any privatisation move, unlikely to be launched before the end of 1988. Mr Refuah said that as a precondition the airline would have to stand on its own feet again for at least 12 months after the lifting of its receivership, expected by the end of this year.

After several years of losses, El Al expects to be in the black during its current financial year. A spokesman said profits in the year to March 1987 would be in the $6m to $12m range.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	20	68	Dubrovnik	S	18	66	Malta	S	25	77	Rhodes	S	23	73
Algiers	S	23	73	Edinburgh	C	9	48	Manchester	F	13	56	Rio de J'o	D	22	72
Amsterdam	S	20	68	Faro	S	21	70	Manila	S	36	97	Rome	S	21	70
Athens	S	22	72	Florence	S	25	77	Melbourne	F	13	55	Salzburg	F	18	64
Bahrain	S	37	99	Frankfurt	S	20	68	Mexico City	S	25	77	San Francisco	C	12	54
Bangkok	S	36	97	Funchal	F	21	70	Miami	F	28	82	Seoul	R	21	70
Barcelona	S	20	68	Geneva	C	18	64	Milan	S	23	73	Singapore	F	27	81
Beirut	S	21	70	Gibraltar	F	19	66	Montreal	C	13	55	Stockholm	S	19	66
Belfast	F	15	59	Glasgow	S	13	55	Moscow	R	7	45	Strasbourg	S	20	68
Belgrade	F	20	68	Guernsey	S	15	59	Munich	F	17	63	Sydney	S	23	73
Berlin	S	15	59	Helsinki	F	11	52	Nairobi	C	23	73	Taipei	n/a	n/a	n/a
Biarritz	S	25	77	H. Kong	C	27	81	Naples	F	24	75	Tangier	F	22	72
Bombay	F	33	91	Innsbruck	R	13	55	Nassau	C	30	86	Tel Aviv	S	24	75
Bordeaux	S	25	77	Inverness	C	10	50	New Delhi	S	35	95	Tenerife	C	23	73
Brussels	S	23	73	Islamabad	S	37	98	New York	C	22	72	Tokyo	F	23	73
Budapest	C	17	63	Istanbul	S	21	70	Nice	S	18	64	Toronto	C	12	54
B. Aires	C	11	52	Jakarta	R	34	93	Nicosia	S	27	80	Tunis	S	22	72
Cairo	S	31	88	Jersey	S	17	63	Oporto	C	18	64	Valencia	F	22	72
Cape Town	S	21	70	Jo'burg	S	19	66	Oslo	S	21	70	Venice	S	21	70
Caracas	n/a	n/a	n/a	Lima	S	25	77	Paris	S	22	72	Vienna	F	19	68
Casablanca	F	20	68	Lisbon	F	19	66	Peking	F	24	75	Warsaw	S	14	57
Chicago	C	12	54	London	C	13	55	Prague	F	14	57	Washington	F	30	86
Cologne	S	21	70	Los Angeles	C	18	64	Reykjavik	S	17	63	Zurich	S	21	70
Copenhagen	S	16	61	Luxembourg	S	19	66								
Corfu	F	22	72	Madrid	F	25	77								
Dublin	F	17	63	Majorca	S	21	70								
Dubai	F	13	55	Malaga	S	23	73								

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Duty-free shopping

Continued from Page 1

Buy sports shoes in Ireland, where they are 68 per cent cheaper than in Denmark, but go to Greece for tennis rackets, although the choice is limited, warns Beuc.

Apart from helping shoppers, the political point of the survey is to show just how far the EC is from achieving a common European market.

Many of the differences can be explained by currency fluctuations, but variations can even be huge within member states themselves. Changing money at the airport or station can often cost much more than at a bank, explains the booklet.

London emerges as the city with the biggest traps for the unwary when it came to changing money, followed by Brussels, Paris and Dublin. One Beuc investigator was quoted £31.61 for DM 100 at three London railway stations, only to find that he could have got £2 more for his money – £33.66 – at a bank.

"It's scandalous," said Ms Sibille Torber, Beuc's economist. "Travellers often go to the first place they find because they are in a hurry to change money. These places should be obliged to have proper displays of their costs."

Bon Voyage. BFr 100, Beuc, 29 rue Royale, bte 3, B-1000 Brussels, Belgium. Available in English and French.